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Print Edition August 12th 2006

On the cover
America has made mistakes, especially in Palestine, but it isn't that easy to find the right way: leader

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Politics this week

Aug 10th 2006
From The Economist print edition

Reuters

Police in London said they had foiled a **terrorist plot** on an "unimaginable scale" to blow up a number of aeroplanes flying between Britain and the United States. Despite many arrests, the authorities raised Britain's threat level to "critical". Passengers departing from Britain faced lengthy delays as security was tightened at airports in response to the threat. See article

At the United Nations, diplomatic efforts to stop the conflict in **Lebanon** continued. A French and American draft resolution on a ceasefire was opposed by Lebanon and the Arab League, which called for the text to include a demand for Israel's immediate withdrawal from Lebanon. See article

Israel's cabinet approved an army plan to push deeper into Lebanon, up to the Litani river, to control areas used by Hizbullah to launch its rockets into Israel. Some saw the move as a ploy to persuade the UN Security Council to propose a resolution that would not require Israel to withdraw immediately.

America's secretary of state, Condoleezza Rice, said that **Iraq** was not sliding towards civil war after last week's evidence to Congress by the chairman of the joint chiefs of staff and the top United States commander in the Middle East said it was. Sectarian violence continued in Iraq itself, showing little sign of abating. See article

Despite a peace agreement signed in May between rebels and the government, violence continued in the **Darfur** region of Sudan. In July, eight aid-workers were killed, more than in the previous two years. Many aid organisations have ceased visiting some refugee camps, which hold about 2m people, because of the escalating violence.

Four more foreign oil workers were kidnapped by militants in **Nigeria's** Niger Delta region. The militants, who have managed to reduce the country's oil production by about 25%, want a greater local share of oil revenues.

At least 200 people were killed and hundreds more were missing after a river overflowed near the city of Dire Dawa in eastern **Ethiopia**. Thousands were also made homeless by the flood.

The incumbency factor

Reuters

In a big political upset, **Joe Lieberman** lost the Democratic Senate primary in Connecticut to Ned Lamont, an anti-war candidate backed by a "net-roots" campaign. Mr Lieberman, Al Gore's running-mate in 2000 and a strong supporter of the war in Iraq, said he would stand as an independent candidate in the mid-term elections, potentially splintering the state's Democratic vote. However, Democratic leaders, including John Kerry and Ted Kennedy, endorsed Mr Lamont's win. See article

As a reminder of another big issue that could hurt sitting politicians in the mid-term elections, **Bob Ney**, a congressman who has been under investigation for his ties to Jack Abramoff, a disgraced lobbyist, declined to stand for re-election in his Ohio district. And the saga of **Tom DeLay** lumbered on as the Supreme Court rejected a Republican request to remove his name from the ballot in Texas in November. Mr DeLay, who had resigned from Congress to fight a corruption scandal, then formally withdrew from the race. See article

Another incumbent fell by the wayside when **Cynthia McKinney** lost her primary run-off election. Ms

McKinney, a black congresswoman from the Atlanta suburbs, became embroiled in a race row earlier this year after she hit a policeman on Capitol Hill. See article

America's state governors launched a bipartisan effort to remove a provision in a congressional bill that would give the presidency more power in domestic crises over the **National Guard**, which traces its history back to the colonial militias. Federal and state governments were criticised last year for the uncoordinated deployment of the guard in response to Hurricane Katrina.

Keeping a low profile

Cuba's ailing leader, Fidel Castro, is recuperating from emergency surgery but will take several weeks to resume the powers he handed temporarily to his brother, Raúl, according to the government. Neither man has been seen in public since Fidel fell ill. See article

The seven-judge tribunal charged with certifying the result of **Mexico's** presidential election on July 2nd called for a recount at 9% of the polling stations. Andrés Manuel López Obrador, who apparently lost narrowly, has said protests against the result will continue until the tribunal calls for a full recount. See article

More largesse from the **Gates Foundation**. It announced that it would give $500m over five years to the Global Fund, the main international vehicle for sponsoring projects to tackle AIDS, tuberculosis and malaria in poor countries. The announcement came four days before the opening in Toronto of the XVI International AIDS Conference.

A waltz in Vienna

A fresh round of talks in Vienna on the political future of **Kosovo** was rapidly deadlocked after Serbs from the province boycotted a session on minority rights.

Firefighters struggled to contain more than 100 forest fires in the Galicia region of north-west **Spain** that killed at least three people. The fires, which at one point encroached on the medieval city of Santiago de Compostela, are thought to have been started by arsonists.

AFP

Summer violence

Heavy fighting continued for a second week in north-eastern **Sri Lanka** between government forces and Tamil rebels. In the town of Muttur, 17 aid-workers were killed and thousands have fled violence that threatened to destroy a four-year ceasefire pact.

Nepal's government and Maoist rebels agreed to invite the UN to monitor their respective arms stocks. This promised to settle an issue that had threatened to block peace talks between them. A rebel leader had warned that the talks could collapse over disagreement about the future of the country's monarchy.

Hundreds of people fled fighting in **Afghanistan's** Faryab province between a militia loyal to the army chief of staff and another loyal to a former adviser of President Hamid Karzai. In southern Afghanistan, more serious fighting continued between Taliban fighters and American and European troops.

Close to 1.5m people were evacuated in south-eastern **China** as a typhoon approached.

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Business this week

Aug 10th 2006
From The Economist print edition

BP's reputation in North America was dealt another serious blow. A corroded pipeline caused it to shut down its Prudhoe Bay oilfield, in Alaska, which provides 400,000 barrels of oil a day, or 8% of the American total. The British energy giant is already under scrutiny after a series of accidents in America, including an explosion that killed 15 people at a Texan refinery in March 2005 and an oil spill at Prudhoe Bay earlier this year. The latest incident helped push the price of oil close to $78 a barrel. See article

Google announced two big deals to strengthen its position as the market leader in online advertising. It beat its rivals to win a contract for search and advertising features on News Corporation's internet sites, which include **MySpace**, a trendy social-networking website, and also reached an agreement with **Viacom** to syndicate a selection of clips from Viacom's MTV and Nickelodeon programmes to websites that use Google's advertising network. See article

Sprint Nextel unveiled a $3 billion blueprint to create a wireless broadband network in America. The decision gives the mobile operator an edge over its competitors in harnessing “fourth generation” technology to deliver faster and more reliable video-to-phone services. See article

Connection problems

Telstra cancelled plans to build a high-speed internet network in Australia after it failed to reach agreement with regulators on access fees for its rivals. The news adds to the Australian government's concerns as it considers a sale of its 51.8% stake, worth A$25.3 billion ($19.4 billion), in the telecoms company.

Charles Allen, the chief executive of **ITV**, Britain's biggest commercial broadcaster, resigned. Viewing figures and advertising revenue have declined, and critics have savaged the quality of ITV's recent programming. See article

Investing for success

Aramark, a company that provides food services to schools, hospitals and sports grounds, including New York's Shea Stadium, agreed to be bought by a consortium of **private-equity** firms and investors led by its own chief executive in a deal worth $8.3 billion. It is the latest in a series of big private-equity deals, including the recent sale by **Philips** of 80% of its semiconductors business to a group led by **Kohlberg Kravis Roberts**. See article

In America, a federal appeals court ruled that **IBM** had not discriminated against its older workers when it changed its retirement plan. Pensioners argued that a switch away from benefits based on service and final pay favoured younger employees. The ruling could affect other suits brought against American companies' pension plans on the ground of age discrimination.

Martha Stewart reached a settlement with the Securities and Exchange Commission in a civil insider-trading case related to the lifestyle guru's sale of shares in ImClone Systems in 2001. Ms Stewart (who was jailed in a parallel criminal case but has since made a comeback) will pay a fine of $195,000 and is banned from holding a director's post for five years. She neither admits nor denies wrongdoing.

After months of pressure exerted by a group of foreign investors led by Carl Icahn, **KT&G**, South Korea's biggest producer of tobacco and ginseng, agreed to return $2.9 billion to shareholders by increasing dividends and buying back shares. The deal represents a breakthrough for shareholder activism in Asia.

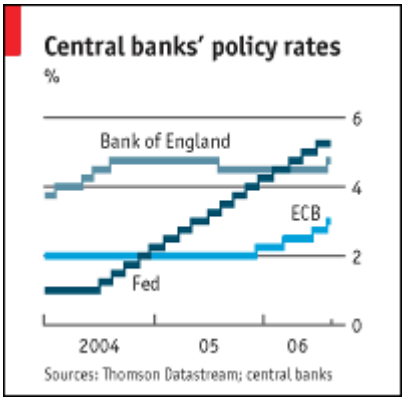
The European Commission said it would investigate the Italian government's decision to block a *euro*14.3 billion ($18.3 billion) merger between **Autostrade** and Spain's **Abertis.** The sale, intended to create the world's biggest toll-road operator, is the latest in a string of takeovers that have been hampered by the apparent economic nationalism of some governments. See article

Anticipating a court ruling in its favour, **Apotex**, a Canadian pharmaceutical firm, introduced a generic version of a bestselling drug, **Plavix**. Bristol-Myers Squibb and Sanofi-Aventis are in the midst of a legal fight with Apotex to protect Plavix's patent.

Air China reduced the value of its forthcoming public offering in Shanghai by 40% because of weak demand. The carrier's listing follows a spurt of big domestic offerings in mainland China this year after a 12-month ban on new share sales ended in May.

Words of caution

America's **Federal Reserve** left the federal funds rate unchanged at 5.25%, ending a run of 17 meetings at which it had increased interest rates. Economists pored over the accompanying statement, which said that although core inflation had been “elevated” the signs were that economic growth had “moderated”. See article



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American foreign policy

Lost in the Middle East

Aug 10th 2006
From The Economist print edition

It just isn't that easy to find the right way

"STUFF happens," said a nonchalant Donald Rumsfeld, as looters trashed Baghdad. "The birth pangs of a new Middle East," claimed Condoleezza Pollyanna Rice last week as Hizbullah's rockets slammed into Israel and Israel's aircraft pulverised Lebanon. This week America was conspicuously resisting calls for an immediate Israeli withdrawal. Whatever else is going wrong for America in the Middle East, the Bush administration shows an unmatched ability to put its case in ways that make its friends squirm and its enemies fume with rage. Beyond the tin ear, however, is American policy really as malign, muddle-headed and incompetent as its critics say?

The short answer is that America does not have a single policy for the whole Middle East. Some of the so-called neoconservatives believe that one idea—spreading liberal democracy to the Arab world and Iran—should guide all America's actions across the region. But for all their influence, the neocons have never quite got their way. Nor should they. The Middle East is a large and complex place in which America is engaged on many fronts. These include putting out the fire in Lebanon, blocking Iran's march towards a nuclear bomb, saving Iraq from utter collapse and ending the conflict in Palestine. And though all are connected, each deserves a careful policy of its own.

The catalogue of failures

What is true is that on none of these fronts is America showing success. Lebanon this week was still in flames, despite Ms Rice's shuttle diplomacy (see article). Iran continues to defy the Security Council's instructions to stop enriching uranium. Iraq has descended into a dark night of violence; this week's eviction of the pro-war Joe Lieberman in Connecticut's Democratic primary is a sign that more and more Americans see staying on as a road to perdition. In Palestine the moderate leadership has been pushed to the margins and the rejectionists of Hamas, who now run what is left of the Palestinian Authority, cheer on the Hizbullah missiles falling on Israel.

America's wider democracy project looks more threadbare by the day. One of its prize exhibits was a Lebanon free of Syria; now there is talk of inviting the Syrians back to impose order. Ms Rice has given the odd stern lecture on the virtues of democracy—but Egypt and Saudi Arabia know they matter too much to pay much attention. In short, the Middle East is in an unhappy state. But how much of that is America's fault?

Note first that America is by no means as powerful as its friends and enemies think. Since seeing off the Soviet Union, it has become the strongest external force in the region, but that does not make it all-powerful. America is not a colonial power like Turkey, France and Britain, which were able simply to order the locals around. Its “clients”, such as Israel, Egypt and Saudi Arabia, are independent actors who often do what they want. Even in Iraq, America defers to the elected government. Allies from the cold war, such as Turkey and the shah's Iran, are now cool (Turkey) or actively hostile (Iran). And American interests are nowadays challenged by strong indigenous forces. These are both ideological—the rising tide of Islamism—and political. Recent months have seen the knitting together of an improbable but remarkably strong anti-American coalition consisting of Syria and Iran plus Hamas and Hizbullah, militias drawn from the previously separate streams of Sunni and Shia radicalism.

In circumstances like this, it is no surprise that America has failed to remake the Middle East just as it pleases. The interesting question is whether, after September 11th, it made things worse. On one analysis, America is paying for self-inflicted mistakes. George Bush stands accused of invading Iraq for no reason, picking a needless fight with Iran, conspiring with Israel to destroy Lebanon, seeking naively to foist American values on the Arabs and neglecting the suffering of the Palestinians. Above all, a depressing number of Muslims well beyond the Arab world believe that America's war on terrorism is merely a cover for a war on Islam. In a quarrel with dictators, fanatics and terrorists, America has somehow contrived utter defeat in the all-important battle for hearts and minds.

Part of the indictment is fair, but most is too simple and some bits (the war on Islam) sheer nonsense. The invasion of Iraq may have been a mistake—opinions still differ—but it had a reason: a widespread belief that Saddam Hussein was arming himself with nuclear or chemical weapons. *Pace* Connecticut, there is still a strong reason to stay (see article). By the same token, America's anxiety about Iran acquiring a bomb is shared by many, not least Iran's near-neighbours. It was clumsy of Mr Bush to consign Iran to an “axis of evil”, but since then he has co-ordinated his policy with Europe and Russia and offered Iran rewards for abiding by the rules.

They pushed back

As for favouring democracy, what was the alternative? America cannot ram this idea down Arab throats. But the days in which it was clever to cosy up to dictators have passed. It was surely right and not naive to push Syria out of Lebanon after the pro-democracy “cedar revolution”. It was right in Iraq to organise elections rather than impose a strongman. It was right to have pushed for elections in Palestine—and to have insisted afterwards on the new government accepting the principle at least of making peace with Israel. The only thing that was naive was the failure to predict how hard the dictators and Islamists would push back when America pushed democracy. And they have lost no time in exploiting America's chief vulnerability in the region—its instinctive defence of Israel.

Apart from the debacle of Iraq, the one vast strategic error Mr Bush has made has been his sin of omission in Palestine. Preoccupied by September 11th, fixated on Mr Hussein and bored by the complexities of the West Bank, he decided not to try again where Bill Clinton had failed, preferring to put the Palestine issue on hold by means of the ever-winding “road map”. In Lebanon, this mistake has come back to haunt him.

Faced with a choice between the cedar revolution and its longstanding ally, America showed this week that its prime sympathy was still with Israel. Arab leaders who trekked to New York hoping for a Security Council resolution ordering the Israelis straight back across the border did not get their wish. Around the world went up a wail of protest: America was once again allowing its protégé to get away with murder.

That is not quite fair. From the moment it started, this war looked like ending in stalemate. If Israel hoped to knock out Hizbullah, it has failed. If America hoped that by knocking out Hizbullah, Israel would help America to weaken Iran, it will be disappointed. America should have called a halt earlier. But even if it were not Israel's special friend, it would be a mistake for it to push Israel back in circumstances that let Hizbullah return to the border and renew its provocations. The idea that the feeble Lebanese army on its own can control Hizbullah is absurd. And for Israel to gain nothing from its fight would be an abject humiliation. Better to call for an immediate ceasefire, followed by whatever international arrangement can ensure that Hizbullah does not attack again.

So long as America seems so indifferent to the Palestinians' plight, Arabs will, however, treat such reasoning with suspicion. The solution is not for America to abandon Israel, but to guide it to peace with its neighbours, applying pressure on both sides. Peace in Palestine would not just make it easier to

achieve America's wider aims in the Middle East. It would also be the best favour America ever did the Jewish state.

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Iraq

The case for staying on

Aug 10th 2006
From The Economist print edition

Despite Iraq's relentless gloom, the United States should resist the temptation to cut and run

Reuters

Get article background

HOW to define a civil war? In Iraq some 3,000 people, most of them civilians, are dying every month. In terms of blood, it is a greater tragedy even than Lebanon's, and the Iraqis, unlike the Lebanese, are being killed mainly by their fellow countrymen: Sunni suicide-bombers blow their Shia compatriots to bits; Shia militiamen have taken to slaughtering Sunni civilians for no reason other than their religious affiliation; sectarian cleansing in mixed areas is happening apace.

The writ of Iraq's new central government is weak, running barely at all in some of the provinces inhabited largely by the Sunni Arabs. The Kurds have a de facto state of their own in the north. Even the oil-rich Shia south, considered comparatively stable a year or so ago, is lawless (see article). The country is moving steadily closer to fragmentation.

From America's point of view, what was supposed to be a showpiece of Arab democracy gifted by Uncle Sam is becoming a fiasco. The region's top American general says that sectarian violence “is probably as bad as I've seen it, in Baghdad in particular,” and that if it is not stopped, “it is possible that Iraq could move towards civil war.” The outgone British ambassador says that “the prospect of a low-intensity civil war and a de facto division of Iraq is probably more likely at this stage than a successful and substantial transition to a stable democracy.” So why not call it a civil war without qualification, admit that America has failed beyond redemption, agree that it is time to go, and let Iraqis fight it out on their own?

Not so fast. For one thing, though it is heading that way, Iraq is not quite yet in a full-blown civil war. The central government embraces all the main political parties encompassing all the country's main sects and ethnic groups, and is holding together under a new prime minister, Nuri al-Maliki; an all-out civil war would mean its collapse. For another thing, the country is not yet cordoned off into distinct areas by barricades and barbed wire and crossing points, as in Lebanon's civil war in the 1970s and 1980s. Nor yet has Iraq's fledgling national army, the nearest thing to a national institution, broken apart. Nor have neighbouring countries, in particular Sunni Saudi Arabia and Shia Iran, weighed in overtly on one side or another, as would be likely if a full-scale civil war erupted.

Mr Maliki has been saying the right things and making progress, albeit stumbling. He has begun tentatively tackling the lethal Shia militias, now as much a scourge as the Sunni insurgents. He knows he must tweak the constitution to ensure an equitable distribution of oil wealth and to reassure the Sunnis

that federalism does not mean the end of Iraq. Through Sunnis in his government, such as the defence minister, he has been seeking out insurgent groups that might parley. He has been at pains not to look like an American poodle, vigorously condemning abuses by American troops and sympathising with his co-religionists in Lebanon. He still has a chance, however small, of recovering his government's authority, by being fair to the aggrieved Sunnis, reassuring the Kurds they can keep their autonomy, and holding firm against the insurgents.

America must hang on in

But he still needs the Americans badly, especially in Baghdad, where he has called them in as reinforcements to staunch the sectarian bloodshed; without them, it would be even worse, and civil war might indisputably arrive. Iraq's army is getting beefier, but still depends on American logistics and training.

The biggest trouble is that the dominant Shias think they should have unfettered power in the new Iraq, while the Sunni Arabs, only a fifth of Iraqis, refuse to accept second place. Might America's rapid exit force Iraqis to accommodate each other? Conceivably. Might a stated American departure date concentrate Iraqi minds towards that goal? Perhaps.

But the risks posed by an early or even a timetabled American getaway are still far too big—at any rate, for Iraqis. The new government, with its undoubted democratic legitimacy, is the best on offer. From the start of this flawed American enterprise, American troops, thanks to the arrogance of Donald Rumsfeld, the defence secretary, were far too few. Of course they should leave when the Iraqi army is strong enough to take over; of course they should leave if Iraq's government, for whatever reason, asks them to do so. But, however badly America may have conducted its post-war plan for Iraq, it would be a shameful dereliction of duty if it were to leave because voters, in Connecticut or elsewhere, lose heart. In a year or so, the situation may be irretrievably hopeless. It is pretty appalling now. But it is still not the time to give up.

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National oil companies

Really Big Oil

Aug 10th 2006
From The Economist print edition

Sluggish behemoths control virtually all the world's oil; they should be privatised

AP

WHEN activists, journalists and others speak of “Big Oil”, you know exactly what they mean: companies such as Exxon Mobil, Chevron, BP and Royal Dutch Shell. These titans have been making lots of money for their shareholders; their bosses enjoy vast pay packets; and their actions affect us all. BP's decision to shut down Prudhoe Bay, America's biggest oilfield, to repair leaking pipes is a case in point, outraging many and pushing petrol prices even higher (see article).

Yet Big Oil is pretty small next to the industry's true giants: the national oil companies (NOCs) owned or controlled by the governments of oil-rich countries, which manage over 90% of the world's oil, depending on how you count. Of the 20 biggest oil firms, in terms of reserves of oil and gas, 16 are NOCs. Saudi Aramco, the biggest, has more than ten times the reserves that Exxon does. Those with misgivings about oil—that its price is too high, that reserves are running out, that it damages the environment, that it is more a curse than an asset for countries that produce it—must look to NOCs for reassurance.

These companies are certainly sitting on a reassuring amount of oil. Saudi Aramco's proved reserves alone could keep the world supplied for several decades. But it is only exploiting ten of its 80 or so fields, so will be able to pump at the present rate for about 70 years even if it never discovers another drop of oil. In fact, Aramco and other NOCs are likely to find plenty more if they look, since their territory has not been very thoroughly explored. Only 2,000 wildcat wells have ever been dug in the countries around the Gulf, according to Leonardo Maugeri, an Italian oilman, compared with more than 1m wells in the United States.

But if the amount of oil at state oil companies' disposal is not much of a worry, the way they manage it certainly is. Few of the princes, politicians and strongmen who wield ultimate authority over these firms can resist the urge to meddle. At best, that leads to the sort of inefficiencies found at most state-owned firms: overstaffing, underinvestment and so on. At worst, the business of pumping and selling oil is entirely subsumed by politics, as in the case of Petróleos de Venezuela, one of the biggest NOCs (see article). In either case, NOCs produce less oil, more expensively, than they should.

The people's oil, not the bureaucrats'

That is bad for consumers, of course, in so far as it pushes up the price of oil. But it is also bad for oil-

producing countries, which could be squeezing more profit from each barrel if their NOCs were more efficient. Moreover, there are several NOCs not bound by OPEC quotas, such as Mexico's Pemex and Russia's Rosneft, which would love to boost production to take advantage of the current high price, but are struggling to do so.

The easiest way to improve state oil firms' performance would be to privatise them. The authorities, no longer torn between nurturing their NOCs and milking them for all they are worth, could concentrate on maximising their oil revenue through taxes and royalties. Failing that, governments could instil a little market discipline by subjecting their NOCs to competition, either by encouraging them to expand abroad or by allowing foreign firms some access to their home territory. At least, they should grant NOCs operational autonomy, and allow them to retain and invest some portion of their earnings. The less bureaucrats interfere, after all, the more money their oil companies will generate for them to spend.

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Insurance in America

Time for a makeover

Aug 10th 2006
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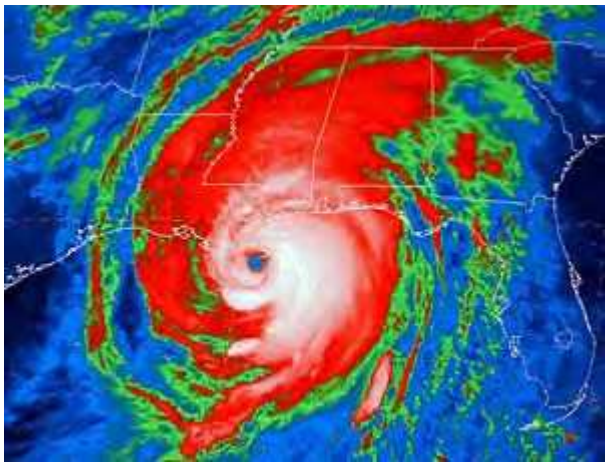
America should ditch its outdated system of insurance regulation

AP



LLOYD'S of London is hardly a stranger in America, where it has been underwriting risks for more than 150 years. Since 2001 it has paid out more than any other insurer (both directly and through reinsurance) to meet claims from that year's terror attacks. It also expects to pay out the most for the big hurricanes that battered southern states in 2005.

Yet although Lloyd's has a long history in America and has written $9.5 billion-worth of premiums for outstanding risks there, it is still quaintly regarded as an “alien” firm under the anachronistic regulations that govern the country's insurance market. This designation puts Lloyd's and other foreign reinsurers at a huge disadvantage against American competitors, requiring them to set aside billions of dollars in collateral to support their American underwriting. This blatantly protectionist rule is but one example of the country's cumbersome and unfair system of insurance regulation. Reform proposals now before Congress and the industry's leading group of regulators deserve serious consideration (see article).

Although the sophistication of insurers' underwriting and risk management has advanced by leaps and bounds in recent times, the regulation of the American market—by far the world's largest, with more than $1.1 trillion of direct premiums in 2005—has stayed rooted in a 19th-century system of state-based oversight. Because all 50 states and the District of Columbia have their own regulators, insurers, whether domestic or foreign, that want to operate nationally must traipse from Albany to Sacramento seeking permission.

This absurdly complicated system is inevitably supported by local insurers (as most of America's 4,500 or so underwriters are): they gain from chummy relationships with the regulators. Some consumer groups like state-based regulation because it helps hold down insurance rates in some places, notably where insurance commissioners are elected. In places facing above-average risks from natural disasters, like Florida, commissioners work closely with state legislatures to combat spiralling premiums and capacity shortages, sometimes through state-supported insurance funds. And, given the state-by-state variation in rules on everything from workers' compensation to corporate liability, state officials are held to be well placed to understand the nuances of local business.

Another excuse for the states not to yield power is that other big insurance markets are far from consistent. There are still too many differences in rules from one European Union country to the next, and France clings to extra collateral requirements for foreign reinsurers. But unlike America, the EU has

begun tackling some of these inefficiencies. Besides, the flaws of others are no reason for America to reject change.

The devastation wrought by Hurricane Katrina, the costliest insurance event ever, illustrates why reform is overdue. The casualties from that disaster did not occur among big firms hit by huge claims, but among smaller insurers; their rates were capped by state officials and they thus lacked the financial bulk to survive the pounding. A fragmented regulatory system that hinders the pooling of risks and obstructs the creation of new reinsurance capacity has done American consumers no favours.

Two proposals are now under discussion. The first, now working its way through Congress, calls for an optional federal charter for insurers. This model, similar to one that exists for banks, would allow firms to operate more easily across America. The second would replace automatic capital requirements for foreign reinsurers with a process to rate all reinsurers, whether foreign or domestic, according to measures such as financial strength, which would be used to set collateral requirements more objectively. Neither proposal amounts to much more than pruning the ancient thicket of insurance rules. But both changes should spur competition, innovation and (eventually) lower premiums. And those, as the hurricane season concentrates American minds, are certainly things worth striving for.

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Mexico's contested presidential election

Sore loser

Aug 10th 2006
From The Economist print edition

People power and its abuses

AP

SHOW me a good loser, goes an old quip, and I'll show you a loser. Andrés Manuel López Obrador seems to have taken this saying too much to heart. After his apparent defeat in Mexico's presidential election on July 2nd, he is refusing to give up. He has instead called thousands of his supporters into the Zócalo, Mexico City's main square, and Reforma, one of its principal avenues. The (peaceful) protests will continue, he vows, until the electoral authorities agree to a full recount. A fair count, he says, will reverse the result.

Is this another example, like Ukraine's “orange revolution”, of a brave democrat mobilising “people power” in order to restore a stolen election? Hardly. Mr López Obrador may have been cheated of victory before. In 1994 he lost the governorship of Tabasco state in an election rigged by the Institutional Revolutionary Party, the ever-ruling party of the time. But Mexico has changed. Its democracy is now full-blooded but still new enough that it cannot be taken for granted. Far from strengthening Mexico's young democracy, Mr López Obrador's protest now threatens to undermine it.

July's vote was close. The margin that gave Felipe Calderón of the centre-right National Action Party his apparent victory was a mere 244,000 of the 42m votes cast. But Mr López Obrador's accusations of large-scale fraud are not supported by evidence. Observers from America and the European Union judged the vote fair. In many areas the tally was certified by his own centre-left Party of the Democratic Revolution, which scored its best-ever result in the vote for Congress.

The integrity of Mexican elections is the responsibility of two institutions, which have operated transparently and independently of the government since they were reformed in 1996. The Federal Electoral Institute runs elections and counts the votes. The results are certified by the Federal Electoral Tribunal (Trife), a seven-judge panel that has proved its impartiality in scores of local elections. Mr López Obrador had been happy to accept their authority until he learned of his likely defeat. On August 5th in a unanimous ruling the Trife judged that there were grounds for a recount at 11,839 polling stations, about 9% of the total. That is unlikely to overturn Mr Calderón's victory, although the Trife could broaden the recount if it finds more irregularities than expected.

That ought to be the last word. The Trife is the final arbiter on electoral matters and must declare a winner (or annul the election) by September 6th. But Mr López Obrador responded to its ruling by inciting more civil disobedience. “What is going to happen if they force this result on us?” he asked his supporters. “Revolution,” they roared in answer.

No longer a friend of democracy

By mobilising people power this way Mr López Obrador is not defending democracy but attacking the institutions that underwrite it. Many Mexicans fear that he is building a mass movement to make it impossible for anyone else to govern. But it is far from clear that a majority backs him. Mr López Obrador's fiery five-year tenure as mayor of their capital left Mexicans unsure whether he would govern as a moderniser or as a reconditioned populist. His performance since the election, especially his willingness to let Mexican democracy erode, suggests the latter. The longer he camps out in the Zócalo, the more apparent it will be that he does not deserve to be president, after this or any future election.

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On Pakistan, the Doha trade round, Spain, proportionality in war, computers

Aug 10th 2006
From The Economist print edition

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Mulling Musharraf

SIR – Your survey on Pakistan characterised it as a Muslim country that all too easily embraces extremism (July 8th). One should remember that before General Pervez Musharraf came to power there were more press freedoms and no persecution of religious minorities with the kind of impunity we see today. Pakistan's fundamental freedoms have been dismantled over the past six years under the guise of a moderately "enlightened" government that has granted "concessions" to women and minorities only as publicity stunts. Those who are concerned about human rights in Pakistan must push for the restoration of the rule of law, free and transparent elections, the appointment of an independent judiciary and the institutionalisation of human rights in the justice system. We suffer enough homilies from the West about democracy and for you to argue that General Musharraf is more popular than any elected leader just sprinkles salt on our wounds.

Arooj Iqbal
Lahore

SIR – The contention that *madrassas* are full of extremists who encourage tension between Islam and the West neglects the fact that they were historic centres of learning that became militant only after the Soviet occupation of Afghanistan and America's exhortation to fight the invasion. Now you want Pakistan to tackle the militants, but if today's advanced coalition-forces cannot stop the Taliban from operating with ease between Afghanistan and Pakistan, then how can we?

Nauman Muhammad
Karachi

SIR – Who is responsible for the Taliban? Who burdened an already weakened country with 3m refugees, making it yet more unstable? Who brought the Kalashnikov drug culture to Pakistan? And who left Pakistan in solitude for years after it helped the West triumph in the war against communism? Is Pakistan expected to cut the crops that others have sown all by itself?

Ali Khan
London

SIR – You completely ignore that Pakistan is a country that solves many of its problems on a daily basis without each dispute turning into a crisis. This may be of little value to a visitor, but it is crucial for the people who live there; a failure of government does not equal a failure of society. Pakistan has a culturally diverse population that is unique in many respects—observing a crowd at a cricket match in Lahore in no way captures that.

Musharraf Cyan
Decatur, Georgia

SIR – One of Pakistan's major problems is the military. It is the biggest landowner and industrialist in the country and runs its own excellent welfare state within an abysmal non-welfare state. It eats up the largest portion of civilian funds in the budget and on top of all that it has monopolised political power. Although it is a tough nut to crack, Pakistan is poor because the military is rich and in power and until

that changes it is pointless to expect better days.

Sharif Lone
Nidderau, Germany

SIR – Feudalism is not only confined to the province of Sind and prevails in varying degrees in all Pakistan's provinces, most especially in Baluchistan where for decades tribal chiefs with private armies have not accepted the government's writ of law. These feudal rulers, like the princely states of India, were given identity, power, recognition and land by Britain to run the subcontinent and were bestowed with the same privileges and undemocratic methods that, as you mention, they still retain. There will be no solution to Pakistan's problems without the undoing of this colonial relic.

Syed Rizvi
Cambridge, Cambridgeshire

Caught in the trade winds

SIR – You exaggerate the costs of the wrecking of the Doha round ("The future of globalisation", July 29th). Even the World Bank's projections suggest that the gains to developing countries of full agricultural and textile liberalisation would be small by 2015 and concentrated in less than a dozen developing countries. More basically, the core Doha deal was a bad one, in that it invited developing countries to specialise even more in agricultural and natural-resource activities; the next trade round has to frame multilateral trade and investment rules that enable more scope to diversify into industrial activities and modern services. Much depends on whether the G20 group of prominent developing countries can forge a common position. The prospect of them finding themselves exposed to a proliferation of bilateral and regional trade agreements—a fate worse than Doha—might stiffen their resolve to get their act together.

Robert Hunter Wade
Professor of political economy
London School of Economics
London

No zeal for Zapatero

SIR – Ever since democracy was restored in Spain 30 years ago you have shown a mild and somewhat instinctive preference for the Socialists ("Zappy happy on the beach", July 29th). Overregulation, however, was never thought to be a liberal value; and the new, Socialist-sponsored autonomy statute for Catalonia, which is four times as long as the old one, provides for public intervention in every conceivable field of human endeavour. Only the People's Party denounced this fact while the law was in the making. Next time you want to express a preference in Spanish politics, maybe you should do some zapping around our political spectrum before settling so happily for Zappy.

Leopoldo Calvo-Sotelo, Jr
Madrid

Saints and soldiers

SIR – Your article on the proportionality of the conflict between Israel and Hizbullah engages many of the issues in contemporary debates on the ethics of war ("Mind those proportions", July 29th). You are right to say that Augustine is still relevant. Recall, however, two further points that emerge from an Augustinian perspective on war. First, the moral analysis of war suffers when we are not attending to the end of war: peace. All war, like all political activity, must pursue peace, understood in part as a more just order than prevailed beforehand. Second, the ancient tradition recognised a broader notion of the "legitimate causes of war" than the current consensus, which focuses on self-defence.

In addition to self-defence, the ancient tradition accepted as legitimate causes both the "restoration of a violated right" and the "avenging of evil". Accepting a longer list of legitimate causes for war may seem to make war more likely; this is certainly the contemporary view. However, we would do well to rediscover the wisdom of the ancient tradition. There is such a thing as "false peace" and it is always unstable.

Joseph Capizzi
Assistant professor of moral theology and ethics
Catholic University of America
Washington, DC

Technology plus

SIR – With all due respect to the benefits provided by my personal computer and mobile phone, I find that neither can offer the reliability of the ultimate computing device, my slide rule ("The dream of the personal computer", July 29th).

Jospeh Rosen
Lincoln, Massachusetts

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The Horn of Africa

The path to ruin

Aug 10th 2006 | BOSSASO AND NAIROBI
From The Economist print edition

A region endangered by Islamists, guns and its own swelling population

AP

Get article background

BOSSASO is an exit point from the Horn of Africa and it is bursting. This port in northern Somalia already has 300,000 people, up from 50,000 in the 1990s. More arrive each day. It is a raw place: entrepreneurial, resilient, armed to the teeth. It is also diseased, inadequate and famished. The port's champions reckon it could spread along the inky blue shore like a little Dubai, prospering on exports of livestock and frankincense. But such a future, which now looks a fantasy, depends on the stability of the Horn, which these days is looking only a little less fantastical.

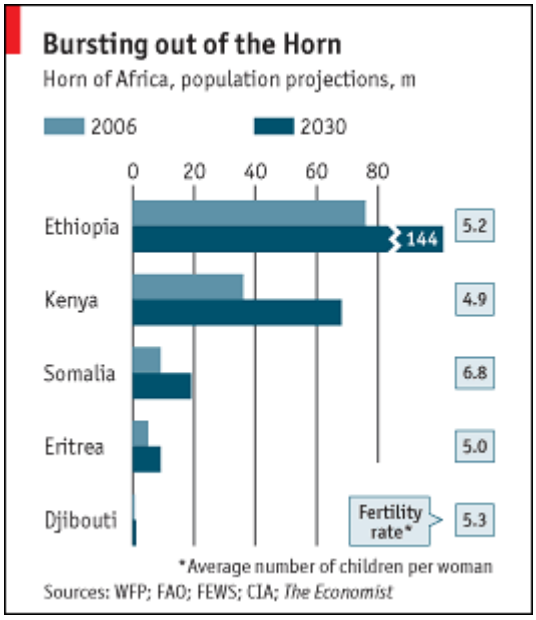
Several thousand Ethiopians sleep rough in Bossaso's dirt, like animals. They are sustained by Muslim alms: a free meal each day, paid for by Bossaso traders. Some of the Ethiopians arrive in town feral with hunger. They have to be beaten back with cudgels when the meal is served. The hope of all of them is to be illegally trafficked across the sea to Yemen. They slip out of town in the moonlight, cramming into metal skiffs that are death traps. Many drown in the crossing: the boat sinks or they are tossed overboard by traffickers when Yemeni patrols approach. Some of the men interviewed in Bossaso for this story have since drowned in this way. Refugee agencies say only a few of those who survive will find jobs in Saudi Arabia. The rest will drift, disappear or die young.

Then there are the destitute Somalis. Some 6,000 of them live in one slum the size of a football pitch. The number could grow to 10,000 within a year. If fighting breaks out in southern Somalia, it will be even more. It is a typical Horn of Africa slum. Only the air is free. Several families split the rent on a cardboard shack. Fires sometimes break out, fanned by sea breezes, often burning people alive. Wells are private: filthy water is a commodity for sale. There are few jobs for the men. Women venture out to sift through the rubbish that blooms and shines like armour in seemingly every open space in Bossaso. Islamists pass through the slums, looking for likely recruits. Disease is a bigger worry. A local doctor reckons that a new epidemic could easily break out: polio and typhoid are already on the prowl.

The Horn of Africa has long been haunted by hunger and by violence. The story of Bossaso is an early sign that these evils will continue, and worsen. Islamist expansionism in Somalia—and the armed resistance to it—plus uncontrolled population growth throughout the area could result in whole pockets of the Horn facing collapse. This would be a humanitarian disaster; it could also lead to a much wider conflict, involving several countries.

The assumption has been that the market will somehow find solutions for the dramatic increase in the Horn's population numbers (see table). So it may, in well-watered bits of the region, where land use can be intensified. In arid areas there is little chance of this happening. There, nature and politics will play their part, and the results will be disastrous.

More regional fighting, for a start. The most immediate risk is of war breaking out between Somalia's Islamists, based in the capital, Mogadishu, and the “secularist” Somali government holed up in Baidoa and backed by “Christian” Ethiopia and the United States—an alliance that no doubt helps Ethiopia's prime minister, Meles Zenawi, to repair his relations with the West, which deteriorated sharply last year after a dodgy election and the shooting of scores of protesters.



The Islamist advance in Somalia was a response to political anarchy, not a symptom of population or environmental pressures. But UN relief agencies are sounding the alarm on these pressures. They are specially concerned about south Somalia and Ethiopia's vast Ogaden desert, where malnutrition rates are far higher than the 15% which signals a humanitarian emergency (nutrition rates in the Horn generally are the lowest in the world). A drought last year resulted in massive loss of livestock in both regions. A Somali war involving Ethiopia would be fought asymmetrically, with Islamist guerrillas striking across Somalia and inside Ethiopia, raising the chances of catastrophic famine.

Cue for al-Qaeda's entrance

It wouldn't take much for famine to seize hold of the area. Humanitarian action has kept the starving alive, but it has not enabled them to recover their lives. The trend is an ever increasing need for food aid plus ever less money from donors to pay for it. The World Food Programme (WFP) is responsible for delivering most of the aid in the Horn. It says that the number of Ethiopians on its books has doubled since the 1990s, in bad years to as many as 10m. The situation is not much better elsewhere. Some 1.7m hungry people are reliant on food aid in south Somalia—when the WFP can get it to them. And 3m people in Kenya, mostly in the country's arid north, will get some kind of food aid this year.

Al-Qaeda has been quick to see and exploit the fragility of the Horn. An audiotape, released in June and believed to be by Osama bin Laden himself, called on “every Muslim” in Somalia to resist the transitional government. It also promised to attack any country sending troops into Somalia. This was meant as a direct encouragement to the jihadists among the Islamists, some of whom trained in al-Qaeda camps in Afghanistan. Some think Mr bin Laden harbours hopes of opening up a new jihadist front in the Horn, specifically in the arid borderlands of north Kenya, south Ethiopia and south Somalia.

These borderlands are politically marginalised, awash with small arms, and environmentally strained. Their inhabitants include large numbers of feisty but ill-educated Muslims, many of whom are skirmishing with their Christian and animist neighbours. The area is not much of a prize in itself, but prolonged instability there would severely restrict development in the larger region, as well as limiting trade between Ethiopia and Kenya.

The rise of the Islamists in Somalia has been swift. They took control of the capital in June, vanquishing the loathed Mogadishu warlords whom the CIA had misjudgedly backed. They are loosely grouped into an alliance of Islamic courts, each court pooling gunmen into a central militia. The first courts in south and west Mogadishu were set up in 1994, with the aim of arresting, prosecuting and punishing criminals. Sufi traditionalists and moderate Islamists, associated with the pacific wing of the Muslim Brotherhood, outnumber radicals in Mogadishu. But it is the radicals who control the court militias and are increasingly holding sway.

And it is to the radicals that al-Qaeda is looking for action. It is known that they have received several arms shipments from Eritrea, which would like to draw Ethiopian troops southwards, away from its own border. More weapons and explosives may now be coming in: Mogadishu port was reopened in late July.

The United States will not talk to the radical Islamists until they give up al-Qaeda suspects who may be sheltering in Mogadishu. One worry is that Somali jihadists, led by Ahmed Abdi Godane, an al-Qaeda graduate from Afghanistan, and supervised by Sheikh Hassan Dahir Aweys, a former Somali army colonel who presides over the Islamist militia, may develop their own terrorist organisation. Already, Mr Aweys's lieutenant, Aden Hashi Farah Ayro, is suspected of murdering foreign aid workers and freethinking Somalis, and desecrating a Christian cemetery. Mr Aweys considers Mr Ayro a “good man”.

Moderate Islamists want the Islamic courts to impose order, making it easier, among other things, to run a business. Radicals like Mr Aweys are working towards the establishment of an Islamic emirate of Somalia, taking in Somali-populated areas of Ethiopia and Kenya. In other words they want to push out into the borderlands. In Ethiopia this would mean taking the Ogaden by force, as Somalia tried and failed to do in 1977. The situation is less clear with regard to Kenya. Islamists have so far been careful to distinguish Nairobi from Addis Ababa. Some Islamists privately say they would like to push the borders of the emirate as far as Garissa, but only through peaceful negotiation.

Islamists on the rise

Since taking control of Mogadishu, the Islamists have fanned out across central Somalia, installing courts and securing strategic bridges and airstrips. In response, Ethiopia has sent hundreds—maybe more—soldiers into the country, including a troop placement in Baidoa, reinforcing Somalia's feeble transitional government. Perhaps 25,000 Ethiopian troops are on the border. Some of the government's former local allies are moving over to the Islamist side, judging this to be preferable to spurring another war. But the government itself is resisting, and its external supporters are not prepared to risk a radical Islamist Somalia. The Islamists, for their part, feel things are going their way and are unlikely to seek an accommodation with Ethiopia.

In this warlike context, the Horn's uncontrolled population growth appears even more explosive. The borderlands have among the highest fertility rates in the world, particularly so among the Somalis. Women in these areas are likely to have six or seven children, against three in the cities. Over half the

population is aged 15 or under. There has been little progress in family planning. In remote areas there is no provision for birth control at all. A recent study by the Ethiopian government, which is making tentative steps to reduce population growth, found that only 3% of Somali women in Ethiopia had access to contraception, compared with 45% of women in Addis Ababa.

Some parts of the borderlands already look like something out of “Collapse: How Societies Choose to Fail or Succeed”, a study of environmentally ruined societies by Jared Diamond, an American academic. The Horn is among the most degraded ecosystems in the world, with only 5% of its original habitat remaining. According to Conservation International, an NGO, the main culprits in the borderlands are overgrazing and cutting down trees for fuel and charcoal.

Much of the region is a no-go area. Hardly a day goes by without a cattle raid, a retaliatory attack or a shoot-out over access to a watering hole or the distribution of food aid. “We used to spear each other in the past,” says a Kenyan Samburu warrior, “but nowadays we shoot each other.” This means that the dead now include women and children. “Since the guns came [in the early 1990s] there has been more killing. You don't need to look your enemy in the eye any more. With a gun, a boy can kill a man.”

How many cows for a gun?

The Soviet Union and the United States dumped most of the small arms in the Horn during the cold war. They have kept on coming since. A good quality AK-47 machine-gun sells for three cows in the borderlands. An American M-16 goes for five cows. The price of a gun, and the prestige attached to getting one, explains why government disarmament campaigns in Kenya and Ethiopia have faltered. For every weapon that is handed over, others remain buried. Such disarmament as there is tends to fall more heavily on tribes with better relations with the government.

There is not much disarming of Somalis in northern Kenya. It is too dangerous. Somali arms dealers do most of the selling and buying, and it is the Somali cattle raiders the other tribes most fear. The Samburu, a mostly Roman Catholic and animist tribe living in a fairly prosperous bit of north Kenya, have joined with other tribes in recent years to fend off Somali raids.

Last year's drought heightened tensions. Some tribes in the borderlands are buying guns and ammunition in preparation for battles they expect to be fought in December, when the cattle will be strong enough, after the rains, to be marched off by raiders into enemy territory. There is concern that the raiders are gaining in strength—and will get stronger yet if, as in the case of the Somalis, they are reinforced and organised by the Islamists.

AFP

Islamist militia guard Mogadishu

War in Somalia could ignite other wars. Most of these will probably be small tribal affairs, such as the battles in northern Kenya, which tribal elders say have claimed more than 100 lives this year. But an Ethiopian offensive in Somalia could result in Eritrea taking its chance to attack Ethiopia. A war between the two countries fizzled out in 2000, but with no resolution on their disputed border.

Even with the fear of greater bloodshed, the main problem in the borderlands remains the stark environmental fact that there are simply too many people and too many animals and not enough grass. Some experts, such as Lammert Zwaagstra, an adviser to the European Union, believe that without outside intervention whole stretches of the Horn will come to look as wretched as Darfur in Sudan, with its people fighting over water, grazing, firewood and other scarce natural resources.

Mr Zwaagstra has been studying the borderlands for decades. Not known as an alarmist, he is now pressing the red alert button. There are too many cattle for the capacity of the land, he says, but too few to sustain the community. Population growth is part of the problem; drought is another. The Horn appears to be drying up. This may or may not be a result of climate change, but experts give warning that if the predicted increase in temperatures does come about, if only by one or two degrees, the borderlands will become unsustainable.

Rainfall is even less predictable. The drought cycle has shrunk from once every eight years to once every

three years, according to the American government's Famine Early Warning System. “That means no recovery time for the cattle, for the land, for the people,” says Mr Zwaagstra. And the changes are happening at breakneck speed.

Even the WFP admits that their delivery of aid is no more than sticking plaster. Others are even more critical. Food aid is like “crack”, says one Nairobi-based aid chief: “It is addictive and creates an unhealthy dependency.” Well, maybe. But any attempt to swing the balance from humanitarian aid to development aid comes against the imperative of saving the starving today. The scale of potential misery is becoming clearer. Rough estimates of famine victims in the next few years range upwards from 10m.

The risk of whole areas of the Horn collapsing with famine and irreversible environmental damage, urged on by jihadist and tribal clashes, is clear cause for alarm. A first task, if Somalia is to be salvaged, is to support a moderate and competent government there. That will be hard, to put it at its mildest. The transitional government is moderate but inept: the Islamists well-organised but given to jihadist tendencies.

Another obvious step is to deter the cattle raiders by improving security in the arid borderlands. Disarming tribal warriors there is difficult; investing in local police and army units is not. However, the police are often ill equipped for the task. Kenya, for instance, has hardly any serviceable helicopters to track cattle raiders and other miscreants. Most of Ethiopia's 7m pastoralists are Muslim and the parched lands they roam are particularly combustible. The Ogaden and Oromia regions of Ethiopia already have their own rebel groups but these, in some areas, could be pushed aside by Islamist guerrillas.

Some people have suggested that the area could end up looking like the tribal lands of Afghanistan. Maybe, but there is one saving factor. Unlike Afghanistan, which has opium (and Iraq which has oil), the Horn has little of economic value to fuel a war: its frontline, after all, can barely keep a cow alive.

The road from ruin

In the long run, the crucial target is to bring down population growth, to stop this barren area from being so dangerously over-exploited. This means that controlling growth must be on the political agenda. The messiness of the problem, and a certain queasiness on the part of diplomats, means that it is not. Indeed, the climate for family planning is in some ways more conservative today than it was in the 1970s when interventionist policies prevailed.

More family-planning clinics are needed, stocked with a greater variety of contraceptives, including injectables and pills, not just condoms (which Somali men don't care for). More controversial is the possibility of providing very early-term abortions on request. Reform also calls for educating girls; the more education a girl has, the fewer children she is likely to have.

An equally urgent approach is to invest in the borderlands while helping pastoralists with no grass left to move to towns where they may find jobs and will almost certainly have fewer children. Without help, and with little education, the hopeless and redundant often end up in the most abject slums, like those in Bossaso.

Tony Blair's report on Africa last year hardly mentioned population growth. “It's the unmentionable,” says a well-placed ambassador in Nairobi. “It's the elephant in the corner of the room,” says another. It is time to start talking about it now.

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The Democrats and Iraq

An anti-war centre begins to hold

Aug 10th 2006 | HARTFORD, CONNECTICUT
From The Economist print edition

Getty Images

Joe Lieberman's defeat is evidence of a startling political shift

HIS army of campaigners came up with a cunning plan to get voters to the polls for Joe Lieberman on August 8th. They would hang “Vote Joe” signs on as many doorknobs in Connecticut as possible, and then disappear for a few hours. If the signs were gone by the time they came back, they would know somebody was at home, and could go and hassle them. Clever—except that it was a windy day, and the signs blew away.

Mr Lieberman went on to lose the state's Democratic primary election to Ned Lamont, an anti-war businessman whose political experience runs no deeper than town hall squabbles over parking fines and rubbish collection. It was a slim victory, by 52% to 48%, but an astonishing and revealing result. Senators are normally no more vulnerable than Communist dictators. Mr Lieberman is only the fourth to be deposed by his own party since 1980.

He is an 18-year veteran of the Senate, and a leading moderate whose addition to Al Gore's presidential ticket in 2000 was reckoned to be one of the few wise moves made by that campaign. Together with Bill Clinton and Newt Gingrich, he was one of the architects of welfare reform in 1996. Mr Clinton turned up to campaign for him last month, and even gave him a public cuddle. Badges showing “the hug” were sported by Mr Lieberman's supporters. Mr Lamont's team wore badges showing the senator being kissed by George Bush.

Mr Lieberman lost because his opponent was rich, because his own campaign lacked sparkle and because, by promising in advance to run as an independent if Connecticut's Democrats rejected him, he seemed to put personal ambition above party loyalty. If that campaign were to succeed in the autumn, he might yet prevent the Democrats from controlling the Senate. The day after the primary the party's top panjandrums, including John Kerry, Ted Kennedy and Harry Reid, publicly threw their weight behind Mr Lamont, who had posed as an anti-Washington outsider.

Most of all, though, Mr Lieberman lost because of his enthusiasm for the Iraq war. He called for an invasion in December 2001, almost a year and a half before the first bombs fell. Having visited the country four times, he is convinced that the plan to rebuild the country is working. Worse, from his opponents' point of view, he says so loudly. His lofty apologias for the war have been welcomed by the White House, and only partly because they confer an air of bipartisanship on the military campaign. Mr

Lieberman's opponents like to say that he has cosied up to President Bush. It is also true that the Bush administration has cosied up to Mr Lieberman.

What really rankles Democrats is the senator's view on the role of opposition politicians at a time of war—which is, baldly, that they should not oppose. Last December he repeated the old saw that "politics must stop at the water's edge". Criticism of the president, the commander-in-chief, was actually dangerous, he said. The Lieberman doctrine struck Democrats as self-defeating and perverse, given the Republicans' habit of dragging the war on terror into domestic campaigns. The senator seemed to confirm the calumny that opponents of the Iraq war are inviting an attack on America.

Mr Lieberman's camp blames many of his troubles on anti-war blogs such as the *Daily Kos*, and even accuses left-wing hackers of bringing down his website the day before the election. They exaggerate. It is doubtful that many Connecticut Democrats were swayed by a blog, particularly one as indigestible as the *Daily Kos*. The site, together with others, such as Moveon.org, raised money for Mr Lamont's campaign, but that mattered little to a candidate who was prepared to spend so much of his own fortune. Tom Swan, Mr Lamont's campaign manager, says the blogs supplied fewer than one dollar out of every ten that was spent on the race.

What the blogs have done is to gather the progressive faithful and fire them with the belief that the Democrats could seize power if they would only stick to their core principles. In matters ranging from Iraq to health care to affirmative action, they insist the party must stop chasing an imaginary centre that is moving ever rightwards. They have made the party more puritanical, and more fractious. One of Mr Lieberman's advisers said grimly on the day of the vote that, if the bloggers took down Mr Lieberman, they would soon go after other Democrats.

The broadening middle

% who believe that the US should:

	Republicans	Independents	Democrats
withdraw all troops immediately	3	22	31
withdraw all troops by August 2007	25	34	46
withdraw only when Iraqis can take over	58	33	19
send more troops	11	6	2

Source: Gallup poll of 1,002 adults aged 18 and older, conducted July 28th-30th 2006

The bloggers' conviction that they hold the keys to the kingdom will only intensify now that Mr Lieberman has been defeated. They can also point to polls showing American opinion drifting against the Iraq war. Attitudes still break down sharply along party lines, with Republicans much keener on the war than Democrats (see table). Gradually, though, independent voters have crept into the peacenik camp. An anti-war left has been joined by an anti-war centre.

There are, however, reasons to doubt that the road to power in Washington runs through Hartford. Connecticut is hardly a typical state. Though some of its coastal towns are decayed, it is mostly rich: Martha Stewart, who built a commercial empire on the pursuit of domestic perfection, is an appropriate resident. In Connecticut's leafier streets live supporters of abortion choice and anti-poverty programmes, who are prepared to put such causes above the financial interests of their class. They are the nearest Democratic equivalent to Republican "values voters".

And they are the people who did for Mr Lieberman. A Quinnipiac University poll carried out in the week before the election found that Democrats from households with an income of less than $30,000 a year favoured the senator by a margin of 49% to 47%. Further up the income scale, though, his support eroded sharply. Among those who earned more than $100,000 a year (Connecticut has plenty) Mr Lamont led by 60% to 39%.

A hardening line

The senator's defeat helps the Democrats in one way. Now that their most outspoken hawk has gone from the party, the range of opinion on the Iraq war has narrowed slightly. As Mr Lamont complained, the senator's support for the conflict undermined the party by making it appear inconsistent. As others note Mr Lamont's success and the rapid enrolment of previously independent voters in Connecticut's

primary, the party line is likely to harden.

Congressional Democrats now stand, rather vaguely, for a timetabled withdrawal from Iraq, but have done nothing so specific as to set a date. With an eye on Connecticut, though, some pro-war Democrats were sharpening their pencils even before Mr Lieberman's defeat. Hillary Clinton, an almost certain runner for president in two years' time, gave Donald Rumsfeld, the defence secretary, a hard time at a Senate committee meeting last week. Then she called for his resignation.

This is a dangerous game. The war may be unpopular, but as Michael Dimock of the Pew Research Centre points out, an anti-war bandwagon brings other things in its slipstream. Few of them are helpful to a party that wants to seize power this year. Most damaging is the link—reinforced by hundreds of Republican attack ads during the 2004 election—between opposition to the Iraq war and opposition to the larger struggle against terrorism. Americans do not have to believe Saddam Hussein was in league with Osama bin Laden, or even that the occupation of Iraq is making America safer, to want a muscular approach to the nation's enemies.

Opposition to the Iraq war has been so strongly associated with the Democratic left that all pacifist campaigns are tarred with the brush of leftism. The success of a doctrinaire progressive in Connecticut will only make that more obvious. As Mr Lamont stood to deliver his victory speech, a weird army of lefties clustered around him. Over his right shoulder, the Reverend Al Sharpton, a veteran of many questionable, racially divisive campaigns, hovered like a malign angel.

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Georgia's Democratic primary

A rant too far

Aug 10th 2006 | WASHINGTON, DC
From The Economist print edition

Cynthia McKinney loses her gerrymandered district

AP

Fighting slights both real and imagined

IF YOU are running for Congress, it's best to have won the previous election. Incumbents usually have a striking advantage; in 2004 only seven of the House of Representatives' 435 members failed to win re-election. Bucking this trend is Cynthia McKinney, a Democrat who represents Georgia's 4th District. She has lost bids for re-election twice in the past four years, most recently on August 8th in a run-off primary.

Ms McKinney's victory in the first primary, albeit without a majority of the vote, surprised some pundits. In March she allegedly hit a Capitol Hill police officer who, not recognising her as a congresswoman, attempted to stop her from sailing past security. Ms McKinney later accused him of racial profiling and “inappropriate touching and stopping of me—a female, black progressive congresswoman.”

Ms McKinney has tossed around the profiling charge more convincingly in the past—as when, in 1998, a White House security guard mistook her 23-year-old white aide for her. The scuffle was not the first of her eyebrow-raisers. Ms McKinney has theorised that the Bush administration had foreknowledge of the events of September 11th and has wondered whether members of the administration, including George Bush himself, profited from the attacks.

These claims assisted Ms McKinney's first ousting from office by Denise Majette, a judge, in 2002. Ms Majette promised voters, “I won't embarrass you.” After she decided to run for the Senate in 2004, Ms McKinney regained the seat. Hank Johnson, the county commissioner who won 59% of the vote in Tuesday's runoff, also pledged to restore “dignity and credibility” to the office. In a district that has been carefully gerrymandered to make blacks a majority, he will almost certainly win in November.

Because Mr Johnson received campaign contributions from Republicans, Ms McKinney portrayed him as the Republicans' choice. Not necessarily. Ms McKinney's unerring tendency to attract negative publicity would have been a continuing source of fun and consolation to state Republicans if she had won.

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California's prisons

Packing them in

Aug 10th 2006 | LOS ANGELES
From The Economist print edition

Gross overcrowding has led to a sky-high recidivist rate. Will money help?

Get article background

EARLIER this summer Arnold Schwarzenegger, California's governor, said that the state's penal system was “falling apart in front of our very eyes”. Indeed so. Some 172,000 inmates are crowded into institutions—from the state's 33 prisons to its 12 “community correctional facilities”—that are meant to house fewer than 90,000. Drug abuse is rampant; so too are diseases such as HIV and hepatitis C. Race-based gangs pose the constant threat of violence, riot and even murder. And with more than 16,000 prisoners sleeping in prison gymnasiums and classrooms, rehabilitation programmes are virtually non-existent—which helps to explain why two-thirds of California's convicts, the highest rate in the country, are back in prison within three years of being released.

AP

Three strikes means triple-deckers

Will the governor's summons of a special session of the state legislature, beginning this week, bring a remedy? The reason for the session is to discuss Mr Schwarzenegger's request for almost $5.8 billion of public money to be pumped into the prison system. Bonds for $2 billion would finance ten 500-bed “re-entry facilities” for prisoners nearing the end of their sentences; another $2 billion would expand existing prisons; $1.2 billion would be earmarked for two new prisons; and $500m would go for new prison hospitals.

Money alone will provide neither an immediate solution nor a lasting one. The first problem is that California simply puts too many offenders in prison. The imprisonment rate, which has risen almost eight-fold since 1970 and is way ahead of any European country, has consistently meant overcrowding despite the construction of 22 new prisons in the past 20 years.

The 1994 “three-strikes” law, approved by voters in a referendum, means handing out 25-years-to-life sentences for often trivial third offences—and results in the growing presence in prison of elderly inmates who cost the taxpayer far more than the average of $34,000 a prisoner. Meanwhile, the practice of returning parole violators to prison, even for relatively trivial mis-steps such as missing a drugs test, also strains the system; some 11% of inmates are parole violators. Added to all these are more than 5,000 illegal immigrants being held on behalf of the federal government.

The second problem is that any attempt to reform California's penal policy becomes hostage to politics.

Two years ago, the governor was exuding optimism. He added the word “rehabilitation” to California's department of corrections, appointed Rod Hickman, a reform-minded former prison guard, to oversee the system and promised to lessen the power of the 31,000-strong prison guards' union, not least by breaking the “code of silence” that protects corrupt or violent guards.

But that was then. The reality now is that Mr Hickman resigned in March and his successor, Jeanne Woodford, did so in April. According to John Hagar, a “special master” appointed by Thelton Henderson, a federal judge, to investigate the corrections department, the resignations were part of a Schwarzenegger retreat, exemplified by the meetings between his new chief of staff, Susan Kennedy, a Democratic activist who now works for the Republican governor, and the prison guards' union. “Integrity and remedial plan efforts must begin at the top, and then percolate down,” wrote Mr Hagar. “Beginning January 2006, however, it appears that the requisite leadership has been absent from the governor's office. Evidence before the special master indicates that the governor's office may have given the code of silence in California's prisons a new lease on life.”

Mr Hagar may be right, but he does not have a November election to win. Mr Schwarzenegger does, and he is aware both of the hardline instincts of Californian voters (two years ago they refused to soften the three-strikes law) and of the ability of the prison guards' political donations to sway elections. Rather worryingly for the governor, the union, which has yet to decide whom to endorse in November, this week started running TV ads criticising his reform ideas.

Mr Schwarzenegger's Democratic opponent in November, Phil Angelides, describes this week's special session as an election-year stunt. Yet it could turn out to be a clever one. If the lawmakers accept the governor's ideas, he can take the credit; if they refuse, he can blame them for the prisons mess.

Whichever way the lawmakers go, that mess will continue. With no moderation in sentencing policies on the horizon, the prison population is expected to grow by another 21,000 over the next five years—enough to outpace any prison-building programme. That, in turn, will increase the likelihood that Mr Henderson, having last year taken the prison medical system into receivership, will take direct control of the whole prison set-up. With the judge above the political fray, the dream of prison reform might finally be realised.

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Alaska's pipeline problems

The wages of addiction

Aug 10th 2006 | SEATTLE
From The Economist print edition

Living without Prudhoe Bay

AP

AT AROUND four o'clock on Sunday afternoon the bad news came through. Severe corrosion had been found in a rusting pipeline owned by BP in the Prudhoe Bay oilfields in Alaska, and a little oil had seeped out. As a result, on August 6th BP decided to shut down the oilfield—America's largest, accounting for 8% of domestic production—until 16 miles (26 km) of pipeline could be fixed.

As word of the problem rippled through world oil markets the next day, the price of crude jumped 2%, to reach almost $78 a barrel in London. On America's west coast, which already has the highest petrol prices in the country, prices looked likely to rise to as much as $4 a gallon. But the worst consequences were felt in Alaska itself. Oil taxes finance almost all of the state budget, accounting for around 80-90% of tax revenue generated within Alaska. After BP made its announcement, the state began to lose $6.4m a day.

At present the state's budget surplus, about $800m, looks healthy enough. But that could evaporate if repairs take until January, as early estimates suggest. Looking on the blackest side, Gary Wilken, a Republican state senator and co-chairman of the Senate's finance committee, says that oil may not flow again until the end of the state fiscal year in June. That would cost $1.34 billion in tax revenue. On August 9th Frank Murkowski, the Republican governor, announced a statewide hiring freeze.

Alaska's current money woes may be only the start. Proponents of energy development still hope to open the Arctic National Wildlife Refuge (ANWR) to drilling, a proposal that has so far been blocked by the Senate in Washington, DC. Expanded drilling around a vast area of lakes, rivers and marshes centred on Teshekpuk Lake is also planned. Both proposals may face heavier opposition now that pipelines have been shown to be so vulnerable.

The current problems were discovered only because a massive pipeline rupture in March, which led to the biggest spill ever on land in Alaska, spurred more inspections. Activists claim that whistleblowers warned BP about corrosion back in 2004. For BP, proud of its environmentalism and trying to clean up its North American operations, it is a huge embarrassment.

As for greens, they now feel vindicated. “Accidents will happen,” says Eleanor Huffines, who works for the Anchorage office of the Wilderness Society. “We support some oil and gas development, but there are places where drilling for more oil is just not appropriate.” Less drilling, however, means less money. And not just in taxes: Alaskans also receive an annual cheque from oil proceeds, $854.76 for every man, woman and child.

Just before the pipeline news came through, Alaska's legislators were working on a tax-reform bill that would have allowed BP to recoup 50-80% of the millions of dollars it will probably spend to fix its faulty pipes. The bill now looks almost certain to fail. “We don't want to reward bad behaviour,” says Mr Wilken. “Perhaps they cut one too many corners.”

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Tom DeLay

Sweet justice

Aug 10th 2006 | AUSTIN
From The Economist print edition

Getting off a ballot is hard to do

ALL through his colourful political career, Tom DeLay has never concealed his dislike for judges—especially those who do not rule his way. Now the wretches have tripped him up again. Mr DeLay, a former congressman from suburban Houston who once held unrivalled sway on Capitol Hill, had tried to wriggle out of running for another term in November. Despite winning the Republican primary this spring, he resigned his seat in June because he faced legal trouble and a tough fight for re-election. Republicans had hoped to put a substitute candidate on the ballot. Federal courts foiled this plan, and the Supreme Court swiftly rejected the Republicans' appeal this week. His legal options exhausted, Mr DeLay formally withdrew from the race on August 8th.

This means that no Republican will be on the ballot in Mr DeLay's district in November. (A Libertarian is running, but that hardly counts.) Democrats are elated. They had sued to prevent Republicans from replacing Mr DeLay with another candidate. Now they seem to have their dearest wish.

Mr DeLay's lawyers argued that he had moved to Virginia, and had a Virginia driving licence to prove it. Residency there, he assumed, would make him ineligible to run in Texas—though as a columnist asked recently in the *Austin American-Statesman*, “What kind of a Texan goes to court and swears he's from Virginia?” In any case, the courts rejected Mr DeLay's claims. They reasoned that he could, in theory, become a Texas resident again in November, and his wife still lives near Houston.

What now? For Republicans, Mr DeLay's resignation seems the best way out of a bad situation. After all, he originally sought to withdraw for fear of an embarrassing loss: a *Houston Chronicle* poll in January showed him trailing his Democratic challenger, Nick Lampson, by 22% to 30%. As of June 30th Mr Lampson had over $2m in his campaign war-chest. Even if Mr DeLay pulled out a victory, he would have gone back to Congress with the Jack Abramoff lobbying scandal (to which several of his former aides are tied) still playing out. He also faces trial in Austin on criminal charges related to campaign finance.

Even though Mr DeLay has withdrawn, Republicans may not cede the seat. Party leaders will probably support a write-in candidate. This will be tough and costly, because it involves educating voters about the write-in process for an electronic ballot, not to mention an advertising blitz for the new candidate. David Wallace, the mayor of Sugar Land (a DeLay stronghold), has just announced plans to run as a write-in, and has already aired ads attacking Mr Lampson.

Write-ins have won before, though rarely. Ron Packard, a Republican from California, was elected to Congress in this way in 1982; more recently, Charlie Wilson, an Ohio Democrat, won his congressional primary in May as a write-in. If all else fails, Texas Republicans will have to focus on dethroning Mr Lampson in 2008.

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Farewell to cowboys

Newcomers don't like the smells

Aug 10th 2006 | GILBERT, PRESCOTT AND SCOTTSDALE
From The Economist print edition

Life has grown hard for cowboys and cattlemen in Arizona

GEORGE WILLIAMS, one of Scottsdale's last remaining cowboys, has been raising horses and cattle on his 120 acres for 20 years. The cattle go to the slaughterhouse, the horses to rodeos. But Mr Williams is stomping mad.

His problems began last year when dishonest neighbours started to steal his cattle. Then other neighbours, most of them newcomers, took offence at his horses roaming on their properties. Arizona is an open-range state: livestock have the right of way and there is no fine for trespassing. This has been on the law books since 1913. Mr Williams, who is elderly and in poor health, is angry that he has to spend so much of his time fielding complaints and retrieving stolen cattle.

Such grumbles are common in Arizona. The most recent Department of Agriculture census shows that 1,213 of Arizona's 8,507 farms closed down between 1997 and 2002. Many cattlemen are moving out to more remote parts of the state. Arable farmers are struggling, too. Norman Knox, a respected grain farmer in Gilbert, recently learned that the owner of his rented land wants to build condos. Mr Knox is 72 and has to move. He reckons that 50-70% of the farmland in Gilbert has been sold for development in the past two years.

This affects not only cowboys and farmers, but small businessmen too. For 20 years, Gary Young, owner of Gilbert's Higley Feed, sold range blocks and cubes to cattlemen who fed them to cattle during the droughts. But 18 months ago he switched to selling pet food and baby chicks to new home-owners.

Doc Lane is an executive at the Arizona Cattlemen's Association, a trade group. He says Arizona's larger ranch owners are making decent profits from selling. It is the smaller players who are the victims of rising land values, higher mortgages and stiffer city council rules. What happens all too often is that people move in next to a farm because they think the land pretty. But soon they start complaining to the council. In Mr Williams's case it was the horses that annoyed them. Other newcomers don't like the noise, the pesticides and the smell of manure.

Locals worry about the precious, dwindling cowboy culture. Arizona's tourism boards like to promote a steady interest in all things cowboy and western. Last year more British and German tourists came than usual, and many of them were looking precisely for that. Arizona's Dude Ranch Association fills its $350-a-night luxury ranches most of the year; roughly a third of the guests are European.

Many of the ranchers themselves see all this tourism as a cheeky attempt to commercialise a real and vanishing culture. In Prescott, estate agents promote “American Ranch-style” homes with posters of backlit horse riders. On the other side of the street is Whiskey Row, a famous strip of historic cowboy bars. But in Matt's Saloon on Saturday night, real cattlemen could not be found.

Farm folk like Mr Knox and Mr Williams are weighing up their options. Many will migrate to remoter places where land is cheaper and not crowded with city people. Younger ones take on side-jobs as contractors and are cattlehands part-time. Older cowboys aren't sure what to do.

The Arizona Cowboy College in Scottsdale, which trains cattlehands, conducts the school for profit but also for maintaining the cowboy culture. The six-day courses include cattle-herding, rustling and ranch-survival skills. The owner, herself a rancher, says the courses are popular, especially with retired businessmen.

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Diplomats and parking fines

A ticket for corruption

Aug 10th 2006 | NEW YORK
From The Economist print edition

Sleazy countries are best at breaking New York City's parking rules

“THE UN needs a good smack in the face,” fumed one city councillor. New York has long been fed up with the United Nations and its diplomats. The city has 1,700 of them, about 1,699 too many. Their meetings cause endless traffic jams and annoying multi-car motorcades. As for their outstanding fines for traffic violations (more than $18m at the last count), these have so infuriated Michael Bloomberg, New York's mayor, that in 2002 he vowed to tow away illegally parked consular vehicles. Colin Powell, then secretary of state, had to step in to broker a compromise.

Can anything be done? In 2002 Chuck Schumer and Hillary Clinton, New York's senators, added an amendment to a foreign-aid bill that allowed the city to recoup unpaid parking tickets from foreign-aid disbursements to offending countries. But now a new weapon has been discovered: shame. Two economists have found a direct correlation between the number of people who park by the city's fire hydrants and in its loading bays, and the level of corruption in their home countries.

A study* by Raymond Fisman and Edward Miguel, economists at Columbia University and the University of California, Berkeley, gives a rare picture of how people from different cultures perform under new cultural norms. For instance, between 1997 and 2002 diplomats from Chad averaged 124 unpaid parking violations; diplomats from Canada and the United Kingdom had none. The results from 146 countries were strikingly similar to the Transparency International corruption index, which rates countries by their level of perceived sleaze. In the case of parking violations, diplomats from countries with low levels of corruption behaved well, even when they could get away with breaking the rules. The culture of their home country was imported to New York, and they acted accordingly.

The same applied to high-corruption countries. Their diplomats became increasingly comfortable with parking where they liked; as they spent more time in New York, their number of violations increased by 8-18%. Overall, diplomats accumulated 150,000 unpaid parking tickets during the five years under review.

Yet any moral superiority New Yorkers may feel should be tempered by the behaviour of the American embassy in London. Last year, embassy staff stopped paying the congestion charge—now £8, or over $15—for bringing cars into central London. The growing pile of unpaid charges now stands at $716,000.

* “Cultures of Corruption: Evidence from Diplomatic Parking Tickets”, Raymond Fisman and Edward Miguel, June 2006. Available at http://www.nber.org/papers/w12312

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Argentina's presidency

Not so super powers

Aug 10th 2006 | BUENOS AIRES
From The Economist print edition

Néstor Kirchner sidelines Congress and the courts

IN 1993 Carlos Menem, then Argentina's president, made a deal. The congressional opposition allowed him the right to run for re-election and changed the constitution to make lawful decrees he had already issued. In return, the president's term was reduced from six years to four and his influence over other branches of government, such as the judiciary, was limited. The agreement, known as the Olivos Pact, expanded presidential power in some ways and restricted it in others. The current president, Néstor Kirchner, is now casting off the fetters.

This is the work of a political virtuoso. Through changes in the tax system Mr Kirchner has cowed nearly all the provincial governors, historically the most effective counterweight to the presidency. By founding state-owned enterprises and re-nationalising privatised ones he has expanded the executive's power over employment and prices. He appointed a majority of the judges on the Supreme Court, then gained an effective veto over lower-court nominations. His biggest triumph came on August 3rd, when Congress gave him authority to reallocate government spending as he sees fit. Mr Kirchner may even circumvent term limits—the Olivos Pact holds him to two consecutive terms—by alternating presidencies with his wife, Cristina Fernández de Kirchner, a popular senator.

None of this puts Mr Kirchner in the same class as Venezuela's Hugo Chávez, an elected strongman, still less in the company of generals who ruled Argentina in the 1970s. Some of Mr Kirchner's newly acquired powers, such as discretion over spending and a bigger share of tax revenue, resemble those enjoyed by Brazil's president. Nevertheless, Mr Kirchner is “the most centralising president in Argentina's modern democratic history,” argues Luis Tonelli, a political columnist. Mr Kirchner may fancy himself a latter-day Juan Perón, a populist champion of the proletariat who led Argentina for a dozen years in the 20th century. Argentina's fragile democratic institutions, many liberals fear, will suffer.

When Mr Kirchner took office in May 2003 few Argentines expected him to last a full term. He won the election after Mr Menem withdrew from the run-off, denying the incoming president a popular mandate. Mr Kirchner has since achieved popularity by presiding over a sharp recovery from an economic crisis that began in 2001 and by forcing creditors to write off much of Argentina's public debt.

Economic success laid the foundation for Mr Kirchner's accumulation of power. He slapped very high taxes, of more than 20% in some cases, on export revenues, which had been boosted by a devaluation of the peso and high prices for commodities. Unlike nearly all other government revenues, export taxes are exempt from the “co-participation” system under which a portion of federal tax is automatically distributed to the provinces. As a result, the provinces' share of tax revenues fell from 39% in 2001 to 34% in 2005, making governors more dependent on Mr Kirchner's goodwill. Unsurprisingly, five of the six governors from the Radical Party—theoretically the opposition—have allied with the president. He is likely to choose one as his running mate in 2007.

Ignoring their history of losses and inefficiency, Mr Kirchner has taken over enterprises once owned by the state and founded new ones. The postal service has been re-nationalised, along with Buenos Aires's water utility; the government has acquired minority stakes in the main privately owned airline and the airport operator. New state enterprises now being created include another airline, an energy company and a manufacturer of satellites. All this will enable Mr Kirchner to set a wide range of prices directly, to steer investment to favoured regions and to boost employment if the economy slows down.

The president initially won praise for making the process of nominating Supreme Court judges more transparent. Recently, though, he has eroded judicial independence by weakening the Magistrates' Council, a pillar of the Olivos agreement. The council, which comprises lawyers, academics and representatives of the legislature and the executive, vets potential judges and sends a shortlist to the president, who makes the final choice. In February, at Mr Kirchner's behest, Congress reduced the council's membership from 20 to 13 but left him with five appointees. This allows the president to deny the body a quorum, in effect giving him a veto over judicial nominations.

This is a modest coup compared with Mr Kirchner's hollowing out of Congress's powers, often with the co-operation of Congress itself, which he controls even though he lacks a formal majority in the lower house. He has resorted more frequently than his predecessors to executive decrees, which remain law unless Congress revokes them. And now Mr Kirchner has gained a virtually free hand over the budget. He had already enjoyed the power to rewrite spending bills as long as he spent only the overall amount appropriated by Congress, but those “super-powers”, introduced during the economic crisis, expired in 2005. Congress has now restored them permanently, conceding one of its primary powers to the president.

So far, most Argentines are too grateful to Mr Kirchner for the economic recovery to join intellectuals and activists in bemoaning “hyperpresidentialism”. Opinion polls predict an easy win against all potential challengers in next year's election. “The best guarantee of the separation of powers is that Argentines can vote every two years [for Congress],” Mrs Kirchner told opposition senators during a debate on the budget law. “Don't be afraid, because if this government does horrible things as you fear it will, the people won't vote for it, just like they didn't vote for you.” Senator Kirchner neglected to mention that her husband's power grab makes such a catastrophe more likely.

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Cuba

An uneasy calm

Aug 10th 2006 | HAVANA AND MIAMI
From The Economist print edition

Information about Cuba's ailing leader is scarce, but speculation is not

“IT'S like being in the middle of a hurricane,” said one Havana resident, groping for a way to describe the mood in Cuba's capital after Fidel Castro surrendered power temporarily for the first time in 47 years. “Everything seems totally quiet, but you know it can't last.”

There are more security patrols and the summer carnival has been cancelled but those are among the few signs that anything is amiss. Official bulletins insist that the 80-year-old leader is recovering after emergency gastric surgery but that it will take weeks, if not months, before he is ready to return to work. Meanwhile, his brother, Raúl, the defence minister, is in charge. Most people in the western hemisphere's only communist country believe what they are told.

AP

Or both?

Yet the authorities have presented no evidence that Fidel is on the mend, or even that he is still alive. And Raúl has yet to appear in public. In their absence, rumour and speculation flourish.

One line of speculation is that top Communist Party officials will use Fidel's sick leave to encourage a transition they have long thought necessary. Brian Latell, a former analyst from the United States' Central Intelligence Agency, suggests that Fidel will remain party chief, and thus the symbol of Cuba's revolution, but will pass on the presidency, which exercises day-to-day power, perhaps to Carlos Lage, the third most senior official, who has been acting as a de facto prime minister. Domingo Amuchastegui, a former Cuban intelligence official who left the island in 1994, agrees that Fidel is unlikely to return to hands-on management.

Mr Lage shares Raúl's reformist instincts, which are to allow more economic but not political freedoms. The main threat to this group is said to be Ramiro Valdes, a hardline former interior minister ousted by Raúl, who now heads a financial enterprise that belongs to the ministry. Raúl has stayed out of the public eye, say sources close to the Communist Party, to avoid giving the impression that the Fidel era is over.

Dissidents are lying low. Vladimir Roca, an outspoken critic, says he is “watching and listening”. He and other dissidents have decided to do nothing unusual until they really know what is going on.

That wary attitude is causing frustration in the United States, which has been encouraging Cuban democrats via radio and television stations financed by its government. American-sponsored Radio Martí boosted its signal this week. Cuba's government said that Cubans found watching American television on clandestine antennae would face three years in jail.

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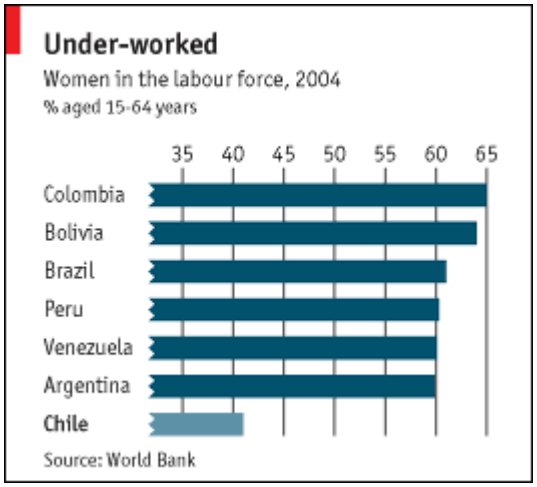
Women in Chile

Left behind

Aug 10th 2006 | SANTIAGO
From The Economist print edition

Will Michelle Bachelet help women or hinder them?

Get article background



CHILE, which has South America's most successful economy, elected its first female president this year. But the lot of Chilean women is by many measures worse than that of their sisters elsewhere in the region. A smaller proportion of them work (see chart) and fewer achieve political power. According to a recent report by the Inter-Parliamentary Union, an association of parliaments, 15% of representatives in the lower house of Chile's Congress are women, less than half the proportion in Costa Rica and Argentina and below the level in eight other countries in the region, including Venezuela and Bolivia. Chilean women hope that Michelle Bachelet's presidency will improve their position but there are worries that she will do more harm than good.

No one is sure why Chilean women lag. The wage gap with men is relatively large. Women earned 19% less than men in 2003, according to a government survey; the gap was nearly 40% in jobs requiring high levels of education. Chile may also be more socially conservative than other South American countries. The women's affairs ministry still finds such phrases as “boys like to learn, girls like to play at tea parties” in textbooks that it vets for discrimination.

To these factors María Nieves Rico of the UN's Economic Commission for Latin America and the Caribbean adds the economy's heavy dependence on natural resources, which slows the development of service industries that typically employ women. Yet, she admits, even taken together these things do not fully explain the situation. The result is that “Chile is throwing talent out the window at a rate that is exponentially damaging to the economy,” says Kathleen Barclay, an American banker in Santiago.

Ms Bachelet began her assault on inequality by appointing women to half the cabinet posts in her centre-left government. A new labour code for the public sector forbids pregnancy tests, removes mention of a candidate's sex from job applications and requires training during normal working hours. The government is encouraging the private sector to adopt the code as well.

Ms Bachelet has started to build new day-care centres and has promised universal nursery schooling by the end of her four-year term, which will help mothers who want to work. A controversial plan to impose a quota of female candidates for Congress on political parties is being prepared. “We'd like it to be 50% but haven't decided yet,” says Laura Albornoz, the women's affairs minister. Opposition to the quota means that, if it passes at all, it will probably be lower. Activists want the government to legislate against the wage gap, but that would have even less chance of overcoming resistance from business and the right-wing opposition.

Women worry that whatever good Ms Bachelet does for them specifically will be undone if she fails generally. The early months of her presidency, which began in March, have been rocky. She handled shakily mass protests by students against the poor quality of state education. She has been accused of taking a soft line in a dispute with Argentina over the price of gas, unfairly since Chile has no choice but to import it. According to a poll released last month, 57% of Chileans think that her government has “acted weakly”.

Many of her countrymen put Ms Bachelet's problems down to her sex. “The government should put its trousers on,” is a grumble heard frequently, but by no means exclusively, from male members of the opposition.

“Being a woman was an advantage while Ms Bachelet was a candidate but stereotyped concepts of authority have now turned against her,” says Marcela Ríos of FLACSO-Chile, a research institute. Now “all the government's problems are being attributed to the fact that she's a woman.” Such attitudes probably explain those peculiar statistics.

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Migrants in Mexico

Waiting to cross

Aug 10th 2006 | ALTAR
From The Economist print edition

A border town's cash crop is people

IF IT had to live off legitimate enterprise, Altar, in Sonora state, would be just another victim of the battering Mexico's rural economy has suffered. But the tiny town is booming in a way that its vanished ranchers could not have imagined. The thousands of young people who pour into town every month are the raw material of its new industry: immigrant smuggling.

AP

Sadly, a two-way street

Located just 60 miles (96km) south of Arizona, Altar serves as a giant waiting room for migrants crossing into America through one of the most punishing deserts in the western hemisphere. “It's the last piece of civilisation they'll see for three, four, five or six days,'' says Francisco García Aten, who manages a shelter provided by the Catholic church.

Founded as a military base in 1775, the town lost its farm income during an economic crisis in the 1990s. At the same time, American immigration authorities tightened the border in urban areas, pushing migrants into remote areas like southern Arizona. In cooler weather, some 1,000-3,000 a day arrive in Altar, whose resident population is just 14,000.

On any street corner they can be seen buying backpacks, water, shoes, hats and tinned food especially in the cooler spring months. For $3 they can rent a flophouse bed made of thin carpet draped over plywood. Those who can afford it pay $30-40 for 12 hours in an air-conditioned hotel. A ride to the border, with 25-30 migrants crammed into a van, costs $15. From there prices vary, depending on how far the “coyotes” take their customers. Successful delivery into the interior of the United States, via a desert growing ever thicker with Border Patrol agents and National Guard support teams, can cost $4,000.

The lucky ones soon find themselves picking grapes in California or roofing houses in Florida. Many are robbed, deported or both, often ending up back in Altar. One man tried 28 times before making it into the United States, says Mr García. Hector, a flophouse manager who was deported for life a few months ago, plans another crossing soon. “I don't care if they put me in a state prison or a federal prison 20 times,'' he says. “I want to die in the United States.”

Altar's public clinic does not treat injured migrants, but a Red Cross mobile hospital in the town's plaza

treats 1,000 a month, usually for foot sores and dehydration. Some thirst-crazed migrants have been found with renal failure after drinking their own urine, according to Gus Soto, a spokesman for the Border Patrol's Tucson Sector, the main entry point for Altar alumni. Hundreds have died on the way.

The Tucson Sector catches more illegal migrants along its 261-mile border than any other jurisdiction, more than 400,000 last fiscal year. A recent American crackdown in the area, which includes further deployment of the National Guard and construction of a barrier, has unnerved Altar. Business has slackened lately.

The lull may be temporary. More women and children are coming to Altar, an unintended consequence of the tightening of the border. Knowing they may have just one chance to cross, says Mr García, migrants now bring their families.

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China

Chaos in the classrooms

Aug 10th 2006 | BEIJING AND LONGHU
From The Economist print edition

An education policy torn between the market and the state

Getty Images

THE students at Shengda Economics, Trade and Management College, in the quiet rural town of Longhu, in the central province of Henan, are among the most privileged in China. So why did they go on a rampage at the beginning of summer? In June thousands of them stormed through the grounds of their college, smashing windows and throwing stones at police cars. It was one of the biggest and most unruly protests on a university campus reported in China since the 1980s.

At first glance, the cause of the riot might look unremarkable. Shengda students have long been unhappy with the college's strict regime. This includes compulsory physical exercise at 6.30am, a ban on alcohol and smoking, and confinement to campus at weekends except for those with written permission to venture out. What self-respecting student wouldn't protest? But the trigger for the violence was in fact quite different. It was the college's decision to add the word “Shengda” to its students' graduation certificates. The fact that this apparently trivial change provoked a riot illustrates the parlous state of China's education system—and the difficulties of reforming it.

Since the early 1990s, China's embrace of market forces has upturned the provision of public services. Although most schools and colleges are still funded by the government, they now operate much more like businesses. They are allowed to generate extra revenue and so improve their facilities and attract more students. And, crucially, they have been permitted to raise fees—often in a disguised form to evade nominal government-imposed limits. The Chinese Academy of Social Sciences says that households now spend more on education than anything else, even though town- and city-dwellers are allowed to have only one child. In 2004 fees provided 18% of the revenues of schools and colleges, up from 4.4% in 1991.

A common way for state schools and universities to earn extra cash is to start schools of their own, which they then run, in effect, as expensive private schools. The trend began some 15 years ago among primary and junior schools, and has reinforced an existing inequality. For most of the communist era, a two-tier system identified a few “key schools” that receive extra money and other favours in order to nurture pockets of academic excellence.

In June, a revision to the education law abolished the key-school system, which had caused much resentment. This left these pampered establishments in an excellent position to attract the highest fee-payers to their new quasi-private facilities. They can also charge high fees from students from outside their official catchment areas. This levy, which is known as a “school selection charge”, can amount to thousands of dollars. Many less privileged state schools are also prospering: after dividing their intake into separate streams, for example, they charge more for the classes with better teachers and facilities.

Following the schools' lead, state universities had by the end of the 1990s also increased their incomes, often in partnership with private capital. Shengda, which was founded in 1994, was an early pioneer. A decade later, China had 249 such quasi-private colleges with a total of 680,000 students, more than half a million of them studying for undergraduate degrees.

At every level, the rich now have much better access to good education than the less well-off. At the same time, the opacity of the privatisation process stops fair competition between fee-charging institutions. State-funded institutions, especially those formerly designated key schools, dominate the market and deter genuine private investment.

In the past two years, local governments have begun imposing business taxes on (genuine) private schools. Unable to make ends meet, some are now going bust. One of the biggest private education companies, South Ocean Education Group, which ran ten schools with some 10,000 pupils and 400 teachers, collapsed last year after officials in one province accused it of raising funds illegally. Even the official media suggested that its fate was more related to the reluctance of state-owned banks to lend to private schools.

Reuters

Distinguished by degrees

Shengda, a quasi-private college, has been blessed with more than 200m yuan ($25m) from a Taiwanese entrepreneur. This has enabled it to build an attractive lakeside campus. But what matters more to the students is the name of its parent institution, Zhengzhou University, one of the most prestigious in central China.

Shengda students pay more than twice the fees of a Zhengzhou University student in exchange for a degree certificate with the words “Zhengzhou University” on it. The decision in June to add the word “Shengda”, they felt, drew unwanted attention to the fact that this was not quite the real thing. In a fiercely competitive job market (despite rapid economic growth, graduate unemployment has been rising), one word could make a grave difference. Employers often regard graduates from private or quasi-private universities as inferior to those from state institutions.

Blacking out the news

The authorities moved quickly to contain the violence at Shengda, which erupted on June 15th. Hundreds of riot police were sent in. Their mere presence was enough to quell the riot. Sit-ins continued on the following day, but with the summer break looming they quickly fizzled. Even so, the authorities were worried enough to order a complete news blackout. To appease the students, the college principal was fired. But Zhengzhou University is still insisting on putting the word Shengda on the graduation certificates.

It has no choice in the matter. The Ministry of Education, after years of indecisiveness over how to

manage the rapid growth of hybrid state-private facilities, is now trying to draw a clearer distinction between them and their parent bodies. Regulations issued three years ago—but implemented by parent universities with little enthusiasm—require the full name of quasi-private colleges such as Shengda to be spelled out on graduation certificates. It has been galling for Zhengzhou University graduates to end up with roughly the same certificate as their Shengda counterparts, who they will have had to outperform in exams in order to win their university place. Encouraging further confusion between the two institutions, Shengda has nearly half as many undergraduates as Zhengzhou University, which has 32,000.

In recent months a handful of other campuses have seen protests similar to Shengda's. An education-ministry official says concerns about possible unrest are slowing efforts to separate the hybrid universities from their parent bodies. And pressures are growing from the less affluent parents who often cannot even think of sending a gifted child to university at all. An official revealed in July that more than a quarter of bursary applications from impoverished students are turned down. In 2003, some 5,500 people, including teachers and parents, visited the education ministry in Beijing to seek redress over issues ranging from high fees to corruption and unpaid wages for teachers. In 2004, the number rose to 7,000.

A big part of the problem is the central government's disinclination to spend money on solving it. Government spending on education has failed to match the pace of economic growth. It has not come close to meeting the demands of a compulsory education law introduced in 1986 that required local governments to ensure that all children receive nine years of free education. Nor has there been enough money to cope with the more than threefold increase in the number of tertiary students since 1999, to some 15m today. By 2010, this is expected to rise to 25m. Schools and universities have been turning to banks for help, which has encouraged them to raise fees and other charges even higher in order to meet interest payments. Many universities are now saddled with large debts that are likely to turn into bad loans.

As a proportion of GDP, government spending on education hardly changed at all in the 1990s. A target set in 1993 of raising this to 4% of GDP by 2000 has yet to be achieved. The aim now is to reach this level by 2010. According to a recent OECD study, China's total spending on education, including both government and private as a proportion of GDP, was just ahead of India's in 2001. But it was lower than in several other Asian developing countries with a similar age structure, such as Thailand and the Philippines. Government spending in India was higher as a proportion of GDP than in China.

Compounding the problem has been the huge share of the spending burden that is borne by the lowest levels of government. For rural governments, the obligation to provide schooling for all has meant devoting the lion's share of their budgets to the task. In many cases it has still been insufficient. In poorer areas teachers often go unpaid for months, and school buildings unrepaired. Recent central-government efforts to reduce the tax burden on rural folk have left many local administrations even shorter of cash. This year the government announced that, by the end of 2007, fees would be entirely abolished at rural schools, given rising dropout rates in poorer areas. But it is unclear who will pay for this. Local governments fear that they will again be left with the tab.

But who will pay?

A recent report by the Chinese Academy of Social Sciences found that the “commercialisation” of education had led to “a serious collapse of its public reputation”. The education ministry appears to have no clear idea of how to separate state-funded schools and universities from their new private add-ons. The recent revision of the education law will—when it takes effect in September—ban local governments from “changing the nature of state schools”. This has been interpreted as meaning that setting up quasi-private schools will be prohibited. But the official media have expressed some scepticism, suggesting there would be strong resistance from state schools as well as from private ones affiliated with state institutions. The revised law also says that fees will be scrapped, but does not suggest who will pay for the policy.

A ministry spokesman caused an uproar in March when he clumsily compared education to shopping for clothes, saying it was natural that “a well-off man can go to a brand-name store to buy a 10,000 yuan suit, while a poor person can buy a 100 yuan suit from a vendor.” At least China's clothing market, unlike the education sector, is not dominated by a state monopoly with little concern for the majority of its customers.

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India

Blaming Uncle Sam

Aug 10th 2006 | DELHI
From The Economist print edition

A former loyalist cabinet minister embarrasses the Congress party

AS FOREIGN minister until forced to resign last November, Natwar Singh gave a good impression of a grumpy old man. In the past week, he has gone beyond grumpy and attained vengeful fury, venting his spleen like a jilted lover. This has proved a nuisance to his colleagues in the ruling Congress party. More important, it has raised questions about the centrepiece of the government's foreign policy: a strategic partnership with America.

AP

Natwar Singh: tending to the left

Mr Singh had to stand down last year after being named in an inquiry by a United Nations committee chaired by Paul Volcker into the manipulation of the UN oil-for-food programme by Saddam Hussein's government. Like the Congress party itself, Mr Singh was listed as a “non-contractual beneficiary” of the Iraqi policy of allocating oil to buy political goodwill. The Indian government, as is its wont, appointed its own committee, chaired by a former chief justice, R.S. Pathak, to investigate the allegations. Its findings, laid before Parliament on August 7th after being leaked to a television station, have stoked Mr Singh's wrath.

The report backs up the original accusation: that in three letters to the Iraqi oil minister in 2001, Mr Singh had used his own and Congress's name to bring commercial benefits to a friend of his son's. But it cleared Congress itself of any wrongdoing. Mr Singh, who has always protested his innocence, accused the Pathak inquiry of political bias, and called himself the victim of “a big international conspiracy”.

He also used the leaking of the report as an excuse to aim for the moral high ground. He tabled “a breach of privilege” motion—tantamount to one of no confidence—against the prime minister, Manmohan Singh (no relation), in the upper house of parliament. He told a television interviewer that the prime minister was “weak” and “indecisive”, and a man who, after working with him for 40 years, lacked “the courage or camaraderie to say something in my favour”.

None of this, says Mahesh Rangarajan, a political analyst, will affect the stability of the government. Once a close ally of the Nehru-Gandhi dynasty that heads Congress, Natwar Singh has been suspended from the party, and seems poised to join a smaller left-wing party, Samajwadi. But the row has opened the government to attack in an area of vulnerability: its growing closeness to America. The former foreign minister, and erstwhile diplomat, represents an important strain in Congress diplomacy that values “independence” and “non-alignment” above all. Its proponents often confuse these values with anti-Americanism. This helps explain Mr Singh's cosying-up to Iraq in 2001, and contributes to the

misgivings many Congress members have about the government's most important foreign-policy achievement: a controversial agreement on nuclear co-operation with America.

Still to clear all the legislative hurdles in America, the agreement is also under fire from both right and left in India. Mr Singh has emerged as an unofficial convenor of opponents of the deal in the Indian Parliament, which, unlike America's legislature, does not have to ratify it. They are nonetheless pushing for a parliamentary resolution on the agreement, which could open big fissures within the Congress party, and between it and its allies.

From the right, the main opposition party, Bharatiya Janata Party (BJP), is also attacking the nuclear deal. For the BJP, the row within Congress is a godsend. It distracts attention from its own latest embarrassment. This was a claim by another unrelated former foreign minister, Jaswant Singh, that he knew of an American spy in the office of a former Congress prime minister who had spilled some of India's nuclear secrets.

This Mr Singh seems unable to prove his claim and looks rather foolish. But Congress will be worried that its opponents seem to be uniting round a similar theme: that the party's leaders are too close to America, and cannot be trusted to guard one of India's proudest achievements, an independent nuclear deterrent.

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South-East Asia's airports

Delayed arrivals

Aug 10th 2006 | BANGKOK
From The Economist print edition

A hubbub over the region's next air hub

EPA

On a wing and a prayer

AIR travel is booming in South-East Asia as elsewhere, and airport operators are rushing to expand. Singapore and Kuala Lumpur opened new terminals for budget carriers at their international airports in March. But in Bangkok—currently the region's busiest air hub, with 39m passengers last year—and Manila, big airport projects are badly behind schedule. So far, the only thing flying around them is corruption allegations.

Thailand's prime minister, Thaksin Shinawatra, had promised that Bangkok's 150 billion baht ($4 billion) Suvarnabhumi airport would open last September. Then it was July. Now he insists it will open at 3am on September 28th. This will require a huge overnight operation to shift planes and equipment from the existing Don Muang airport, which will have to close to scheduled flights. Airlines doubt that the new airport will be ready. But this week the government called for some flights at Suvarnabhumi to start on September 15th, leaving even less time to prepare.

A trial run, of 20 flights, was held at Suvarnabhumi on July 29th. The government said this showed the airport was ready. The airlines' trade body, the International Air Transport Association, said only part of its systems were tested—and that the facility should not open until all systems were demonstrably "working 100%".

Suvarnabhumi will be able to handle 45m passengers annually. And at current growth rates, it could reach capacity in a few years. Meanwhile Bangkok's competitors are closing in. Malaysia plans to increase Kuala Lumpur's airport capacity to 45m passengers, while Singapore has almost finished an extension to Changi airport, to raise its capacity to 64m. Thailand promises eventually to expand Suvarnabhumi to take a staggering 100m passengers. It would be cheaper just to revamp and reopen Don Muang.

Mr Thaksin is accused of rushing the airport's opening to boost his image ahead of the coming general election. This is due on October 15th but, like the airport, may be delayed. (New election commissioners will have to be recruited first: the last lot have just been given jail sentences for bungling an election held in April, which was later annulled.) The opposition is making a campaign issue of various allegations of dodgy dealing over Suvarnabhumi: this week it demanded to know why a big engineering contract at the airport had gone to a massage-parlour operator.

A similar farce is playing out in the Philippine capital, Manila, where a planned new air terminal has been delayed by four years because of contract rows. The opening was set back again in March when a ceiling collapsed in the arrivals area. This week a court banned the government from leasing space to airlines and retailers in the new terminal until the firm that built it had been fully paid.

Flashy new airports can be a status symbol for a rising country—or, if they go wrong, a warning to foreign investors of the country's misgovernment and business-unfriendliness. If travellers find better connections elsewhere, Thailand and the Philippines risk losing tourist dollars—not just to Singapore and Malaysia but also to new holiday destinations like Vietnam and Laos.

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Bangladesh

An ugly alliance

Aug 10th 2006 | DHAKA
From The Economist print edition

Democracy is the loser from the ruling party's new partnership

Get article background

FOR a crowded and impoverished country, blighted by misrule, natural disasters and notable to many outsiders for Islamist terrorism, Bangladesh has done rather well in recent years. Under a four-party ruling coalition, led by the Bangladesh Nationalist Party (BNP), the economy has grown tenaciously, at 6.7% in the last financial year. Backed by generous remittances and a fast-growing garment industry, the country has made good use of its only abundant resource, labour. Yet its sudden growth spurt, as so often in poor places, has exacerbated hardships too. Rising inflation has made the government increasingly unpopular; so have shortages of power, food and foreign exchange. With elections due in January, that may explain an ugly pact this week between the BNP and the country's disgraced former dictator, Hossain Mohammad Ershad.

Sixteen years after the party and the Awami League, now the main opposition party, joined hands to end Mr Ershad's rule, the BNP has recruited the former army chief's party to its alliance. In the last election, the BNP and its allies gained a two-thirds majority. This election is expected to be much closer. If Mr Ershad repeats his performance in the last election (14 seats and 7% of the vote) he could be the “queenmaker” in the fourth bitter contest between the prime minister, Khaleda Zia and the Awami League's leader, Sheikh Hasina Wajed. Mr Ershad and Mrs Zia are, largely because of their closeness to the armed forces, seen as natural allies. By recruiting Mr Ershad, Mrs Zia has greatly improved her chances of winning the poll.

Other potential losers from the pact are the BNP's two Islamist coalition partners, Jamaat-e-Islami and Islami Oitya. The League, and some anxious foreign observers, have accused the BNP of tolerating Islamic extremism because of its ties to these parties. A bombing campaign, blamed on banned militant groups, whose existence the government had earlier denied, died down earlier this year, after the arrest of the two main groups' leaders. But suspicions persist that Bangladesh is a base for international terrorism.

The BNP is divided over Islamism, but it needs Jamaat-e-Islami, which is very popular. It has therefore tried to burnish its Islamist credentials. This week, a government minister named a new bridge in southern Bangladesh after Hizbullah, “because of our love for the Lebanese resistance group.” But the alliance with Mr Ershad may be a step towards sidelining the Islamists. That would help the government woo the foreign donors it relies on, and might improve fraying relations with India, which has not ruled out Bangladeshi involvement in last month's bombings in Mumbai.

Whatever the implications for the Islamic parties, the deal with Mr Ershad is not an advertisement for Bangladeshi democracy. The BNP negotiated the pact through Mrs Zia's son, Tareque, a wealthy businessman. Mr Ershad spent six years in prison on corruption charges in the 1990s. He is currently out on bail, facing 17 pending charges; dropping these appears to be part of his price for joining the alliance. The law minister said the decision is up to the courts, but he was widely disbelieved.

At the end of October, the ruling coalition is due to hand power to a caretaker government to oversee the poll. The League's 14-party opposition alliance has already organised anti-BNP street protests. If the past is any guide, political violence will rise as the elections approach. The opposition is threatening to boycott them unless the caretaker system is reformed. It says the prospective chiefs of the caretaker government and election commission are partisan appointees who must be replaced by neutrals. But so polarised is Bangladesh politics, neutrals are tough to find.

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The Lebanese crisis

The search for peace—and a way to rebuild a country

Aug 10th 2006 | BEIRUT, JERUSALEM AND NAQOURA
From The Economist print edition

Getty Images

Hopes for a ceasefire are rising but the war may get even bloodier before it stops

IT HAS taken a full month, with more than 1,000 Lebanese and 100 Israelis killed and over 1m people displaced in this bitter little war. As *The Economist* went to press, diplomats were inching closer to a deal to separate the combatants, though Lebanon rejected a first draft ceasefire resolution patched together by France and the United States and debated at the UN Security Council. By far the more battered party, Lebanon risks an internal upheaval, some even say a civil war, if at least some of its demands are not met. After the intervention of Arab foreign ministers, who gathered in besieged Beirut to demonstrate their solidarity with Lebanon, some of them may be.

Chief among those demands is for the resolution to call explicitly for Israel's immediate withdrawal from whatever Lebanese territory it has occupied. Even the two Hizbullah members of the Lebanese cabinet have agreed to a plan to deploy some 15,000 Lebanese troops in the south after the Israeli withdrawal to work alongside an expanded UN peacekeeping force; their job would be to keep Hizbullah out of the area. The movement's leader, Hassan Nasrallah (pictured above), said last week his party would stop firing missiles at Israel if Israel stopped bombing Lebanon, though in the same speech he also threatened to strike Tel Aviv, Israel's biggest city, should Israel attack Beirut within its city limits: a threat not yet fulfilled, though Israel bombed parts of Beirut the next day.

But the main argument is over Lebanon's demand that these troops be supported by a beefed-up version of the current UN monitoring force, known as UNIFIL. Israel (which originally wanted only the Lebanese army there) and America say the extra support should come from a multinational mission with a mandate, which UNIFIL lacks, to use force to stop Hizbullah's guerrillas returning to the south or re-equipping with weapons.

Lebanon may be granted some other pacifiers, such as a promise to look into a dispute over the Shebaa Farms, a patch of Israeli-occupied land that Lebanon claims but which the UN considers part of Syria's (Israeli-occupied) Golan heights.

But a final UN deal, which may be passed separately from a ceasefire resolution, is likely to lean more towards Israel's main demand for an empowered multinational force to carry out, once and for all, the UN Security Council's resolution 1559, which called two years ago for Hizbullah's disarmament. Meanwhile,

on August 9th Israel's cabinet authorised a wider ground campaign, including a push up to and slightly beyond the Litani River, some 30km (19 miles) into Lebanon. Israeli forces entered Marjayoun, a Christian town 5km inside Lebanon, which had served as Israel's headquarters during its previous occupation of the area. Mr Nasrallah responded by welcoming “Zionist forces to a Lebanese graveyard” and politely told Arabs living in Haifa to quit that Israeli city for their own safety.

In part, Israel's vote for a big push looked designed to put pressure on the UN, since the decision to go ahead still rests with the prime minister, Ehud Olmert. “If people are serious about playing a part to bring about the implementation of 1559 and a more strong and secure Lebanon, they can make the Israeli military operation superfluous,” said Mark Regev, a foreign ministry spokesman. The offer, in short, is that Israel would stop its advance if a UN resolution met Israel's main demand. Getting a more comprehensive UN resolution may take some time, but at least the impression of dithering, or, as many Lebanese and other Arabs insist, of American complicity in prolonging Israel's bombing, may at last dissipate.

An immediate ceasefire, instead of a campaign that could last weeks and cost hundreds of Israeli soldiers' lives (80 have died so far, plus at least 40 Israeli civilians), would take the pressure off Israel's leadership, as well as relieving the suffering in Lebanon, where ten times as many people, mostly civilians, have been killed.

In the face of mounting frustration that four weeks of war have failed to stop Hizbullah rockets falling on northern Israel, Dan Halutz, the Israeli army's chief of staff, took the rare step of putting a different general in charge in mid-campaign. Some generals are keen to push on and chase Hizbullah all the way out of south Lebanon, arguing that a Lebanese or foreign force will never do that job. But Mr Olmert may hope to be in a position to call a halt earlier.

On the ground in Lebanon, signs of peace were nowhere to be seen. Ask Ali Mahdi, who lives in Naqoura, a Shia coastal village of 1,500 souls just three kilometres north of the Israeli border. When the bombs struck, the first one puncturing the flat concrete roof of the three-storey building, the second sucking it down to smash like a plate, he was on the balcony, saying his dawn prayers. A few hours later, a pneumatic forklift from the nearby UN base plucked Ali to safety, blackened, concussed and bruised but protected by a sole surviving column. The same device then hoisted a young man, wearing shorts and a rubber glove, and carrying a fertiliser sack, to collect what little was left of Ali's three companions.

The Ghrayeb brothers were well known in Naqoura. Qasim, aged 21, was the village barber; Haitham, 28, and Hassan, 32, were fishermen. They were also Hizbullah fighters, perhaps charged with co-ordinating, from the top floor of the local butcher's shop, the Katyusha launchers that are still firing from the surrounding guerrilla dreamscape of rocky hills, densely wooded ravines and, in the coastal lowlands, an impenetrable canopy of lush banana groves. They may have been betrayed by informers—non-Shias in Lebanon respect but often quietly loathe Hizbullah—or they may have been spotted by the Israeli drones that buzz ceaselessly overhead, or, perhaps most likely, their chatter on cellphones or walkie-talkies may have been intercepted.

Such signals are beginning to be used to lethal effect by the Israelis. Their guided ordnance can be disturbingly accurate. On August 4th, for example, an Israeli rocket pierced the back of a man riding postilion on a scooter in the centre of Tyre, obliterating his body and beheading the driver.

But with more than 1,000 Lebanese now dead and 3,500 injured, it is hard to determine how successful Israel has been in targeting actual Hizbullah operatives. It is possible, for instance, that a party official was in the apartment building in Beirut's crowded Shiyah district demolished this week by a pair of Israeli bombs. What is sure is that most of the 41 confirmed dead and 70 injured were women and children. Many of those victims were refugees from the south or from the now pulverised Hizbullah stronghold of Haret Hreik, in Beirut's southern suburbs. They had moved to the building because Shiyah, a relatively prosperous area whose political affiliation is with the rival, less militant Shia party, Amal, had not hitherto been targeted.

So far Israel's 8,700 bombing sorties over Lebanon have destroyed some 50 factories, cut 74 roads and demolished 146 bridges, as well as the homes of 100,000 people, according to Lebanon's engineers' union. A nearly total land, sea and air blockade has not yet caused food shortages, but prices have jumped 25%, and scarcity of fuel has prompted long queues, hoarding, and fears that vital medical services, such as hospital incubators and dialysis machines, may be cut. “They have Gaza-fied this country,” says an international relief official.

The bombing has prompted the flight of nearly a million Lebanese, a quarter of the country's population. Perhaps nine-tenths of the refugees are Shia, which is not surprising since the aerial campaign appears to have largely spared Sunni, Druze and Christian settlements, many of which lie in close proximity to the Shia villages and towns of the south and the Bekaa valley. Throngs of the displaced—poor, aimless and, often, in the case of women, headscarved—have replaced central Beirut's fashion-conscious summer crowds. The chic shops and night spots that gave the Lebanese capital a cosmopolitan fizz stand shuttered, their owners and customers having taken to Christian hill towns or been evacuated by ship.

It could get still worse

A 50km-deep swathe of the country north of the Israeli border is now largely deserted. Naqoura's last hold-outs, five women and six men, fled in battered cars, fearfully tagging on to a UN convoy, after the Ghrayeb brothers' death. All crossings of the Litani River have been severed, forcing aid workers to ford the stream on foot and deliver goods by hand. On August 7th Israel said that any vehicle moving south of the river risked being rocketed, virtually sealing off the port city of Tyre and grounding its large contingent of aid workers and journalists.

The movement ban clearly anticipated a possible large Israeli ground offensive. Aside from the intensive pounding of border regions and cautious probing operations that have, in places, feinted as far as 10km into Lebanon, Israeli forces have so far shied away from full-scale armoured advances. They have continued to suffer severe casualties in the rear, for instance in the hamlet of Labbouna, right on the border, and in the ravaged town of Bint Jbeil, which Israel briefly captured in the first week of fighting.

The Israelis' slow progress is due partly to a concern to limit their losses and partly to the effectiveness of Hizbullah's nearly invisible fighting force, which is divided into small, self-contained units that are spirited, well-trained, well-entrenched and well-armed. Its guerrillas' lightweight anti-tank rockets have been especially effective; Hizbullah says it has knocked out 60 of the Merkava-4 tanks that are among the world's most heavily armoured; Israel calls the claim wildly exaggerated.

Yet some experts believe that Hizbullah's fighting force is being whittled down. One seasoned observer of the border says Israel's claim to have killed some 450 guerrillas may be accurate. The daily firing of Katyushas, man-high rockets that can be launched from a simple wooden frame hidden under a tree, has scarcely diminished. But their range is short, their flight imprecise. The more sophisticated launchers for Hizbullah's longer-range rockets, once used, are far easier to spot and destroy. Now that nearly all civilians have fled from the fighting zone, Israel may heed the urgings of some generals and use far more destructive ground-clearing weaponry, such as cluster, phosphorus and concussion bombs.

Israel's big push, should it materialise, would be very messy. It might achieve the declared aim of eliminating—or sharply reducing—Hizbullah's rocket threat. More doubtful is whether it can achieve a bigger goal: restoring the Jewish state's mystique of invulnerability. “Let there be no mistake,” writes Meirav Arlosoroff, in Israel's leftish daily, *Haaretz*: “This is a war that is being waged over the question of whether Israel will be able to retain the message that having to defend its home front is taboo, and that anyone that dares to violate that taboo will pay an unbearable price.”

The art of survival

Yet in some sense, Hizbullah, by simply holding out and bloodying Israel's nose, has already achieved its own aim, which Bernard Haykel, an expert in political Islam at New York University, says bears no relationship to the actual costs of the war. Its goal instead, he says, is to create a “new psychological state” by embedding the notion that Israel can indeed be hurt and perhaps even brought down.

Even if its offensive military capacity is crippled, Hizbullah will remain the main representative of Lebanon's largest sect (around 40% of the population) and its best armed, trained and motivated force. After previous conflicts, it has been faster and more efficient than everyone else at arranging relief. Shia refugees are being told that Iran will pay for rebuilding their homes; one southerner recalls that when he returned to his house after Israel's campaign in 1996, he found a printed card inside his broken front door, with Hizbullah's apologies for the damage and a telephone number to call for compensation.

Mr Nasrallah is riding high on a region-wide wave of popularity. Yet in the aftermath of war, many Lebanese may drop their mask of solidarity with the “heroic resistance” and begin asking if the devastation of the war was worth the fight. Even among Shias, whose unanimity in calamity has been striking, there are rumbles of dissent about a movement that claimed its arms were a sort of sacred deterrent against Israel but instead provoked ruin.

Hizbullah's critics in Lebanon fear that a combination of economic disaster, friction between displaced Shias and their hosts, and Shia anxiety that other sects may take advantage of a weakened Hizbullah, could reignite a civil war. The party's setbacks, warns Michael Young, a Lebanese analyst, may prompt it “to go on the offensive domestically to refocus the anger of its supporters away from its own responsibility for the disaster and towards its domestic foes.”

That is one reason why Lebanon's beleaguered and divided government has been loth to accept a peace deal that does not offer it some prestige-saving rewards, such as a promise to reconsider who should have the Shebaa Farms. It is also why Lebanon's government has been careful to get Hizbullah to approve such initiatives as an offer to send 15,000 troops from Lebanon's ill-equipped regular army to fill a buffer zone in the south. And it is why the prime minister, Fouad Siniora, a Western-educated Sunni Muslim, has won near-unanimous backing from other Arab states, which fear the weakening, across the region, of secular and modernising trends to the advantage of militant Islamists, who have been tremendously inspired by Hizbullah's example.

Syria is an exception. Having armed Hizbullah and cheered its successes, the government of President Bashar Assad appears determined to gain from Lebanon's continuing suffering. It has hinted, subtly, that it might be willing to help persuade Hizbullah to desist, but only in exchange for a broader deal that would include talks to return the Golan Heights to Syria. Some Israelis agree, arguing that the only realistic way to seal peace is by engaging Syria so as to block resupplies to Hizbullah. But just now, the imperative to crush enemies seems to dominate Israel's thinking.

AP

As for Lebanon, it may muddle through the complicated aftermath of war, with its delicate sectarian balance preserved, as in the past, by a

mutual fear of collapse. Massive aid has already been promised, with both Arab and Western donors determined that they, and not Iran or Hizbullah, should win the credit for reconstruction.

But, at any rate in the short run, in Lebanon and across the region, the mood of outrage against Hizbullah's foes, especially America and Israel, will make it hard to promote coexistence, let alone friendship, between Arabs and the West. “No one believes we can live with Israel any more,” says a liberal-minded Jordanian newspaper editor. “If this goes on much longer, people like myself, who promoted peace, will get stoned in the streets.”

That was my home

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Arabs in Israel

Caught in a bind

Aug 10th 2006 | JERUSALEM
From The Economist print edition

Israel's Arab citizens face a nasty dilemma

EVERY time Israel has gone to war with its neighbours, its Arab citizens have faced a conflict of loyalties. This time it is more acute than ever. Though they are a fifth of Israel's population of 6.4m, a lot of Arabs live in the north, which is why, of the 39 Israeli civilians killed by Hizbullah rockets up to August 8th, 15 were Arabs—Palestinians, Druze or Bedouin.

That has not changed their feelings. A survey early this month by Tel Aviv University's Tami Steinmetz Centre found that Arab-Israelis feel practically the opposite about the war to their Jewish compatriots. Among Jews, 93% think Israel's campaign justified, 91% back air strikes despite the destruction and death they wreak on Lebanon, and only 16.5% want an immediate ceasefire. The figures for Arabs, conversely, are 17%, 6% and 71%.

Most Arabs in Israel, says Sammy Smooha, a sociologist at Haifa University, view the Arab-Israeli conflict as the rest of the region does, with a focus on the injustice done to the Palestinians. “That doesn't mean they support Hizbullah,” he says, “but they see this as an unjust war in which, although Hizbullah provoked Israel by kidnapping soldiers, there was no need to start a war, certainly not to destroy half of Lebanon.”

The sense of injustice has other sources too. A lot of Arabs in northern Israel have relatives or friends in Lebanon, especially in its Palestinian refugee camps, which have been hit by several Israeli bombs. Moreover, since the *intifada* that erupted in 2000, Palestinian Israelis in particular have been treated with more suspicion, while being gradually cut off from their brethren in the occupied territories by Israel's clampdown there.

In Israel, Arab politicians have drawn furious criticism from Jews by denouncing Israel's air attacks as war crimes and blaming the Israeli government, rather than Hizbullah, for the deaths of both Lebanese and Israeli civilians. At an anti-war rally in Tel Aviv on August 5th, perhaps a third of the 2,000-3,000 participants were Arab, while most of the Jewish marchers were members of fringe anti-Zionist groups such as the communists and anarchists. Noticeably, even in their united opposition to the war, Arabs and Jews marched mostly in separate clumps.

Still, Israel's Arab politicians tend to be more radical than their voters. “We are protesting against the war, not against one leader or another,” wrote Bassam Jaber, editor of *Panorama*, a popular Arab-Israeli newspaper and website, this week. “We do feel oppressed and frustrated as citizens of Israel, and we have a lot of demands of the state,” he says. “But when there's a war our demands become small when we see that tens or hundreds of people are being killed. I don't think it's our job to criticise Hizbullah, but we can play a leading role in making peace.”

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Iraq

Mayhem in the south too

Aug 10th 2006 | BASRA
From The Economist print edition

The south is less bloody than the centre but it is violent and lawless all the same

Get article background

THE noise of a mortar round, like an incoming train, startles a bunch of contractors and aid workers waiting for their helicopter flight out of the British diplomatic compound in Basra, sending them and your correspondent scrambling for cover. This—and the array of other projectiles that have whizzed over the riverside palace complex in the past few nights—is presumed to be the Mahdi Army's revenge for the arrest of their local commander by British soldiers a few days before.

It is very different from two years ago, when British diplomats would happily cool down on the banks of the Shatt al-Arab waterway, since walled off by the concrete barriers that are ubiquitous across Iraq. The Shia-populated southern provinces used to be relatively safe. Not now. The violence in Basra, the south's capital, still pales by comparison with many other parts of Iraq, especially the Sunni areas to the west of Baghdad and the sectarian tinderbox of Iraq's capital. Even at its worst, in mid-summer, the bloodshed in Basra, caused largely by Islamist Shia militias feuding among themselves, claimed about 20 lives a week, according to the police, and now probably accounts for half that figure; Baghdad's daily death toll is far higher.

Still, the violence in Basra has deterred investment and caused the middle class to flee. Few of the billions of dollars of oil extracted from the huge fields just west of the city seem to have been put to good use locally. After suffering terribly under Saddam Hussein, Basra is still a slough of despond; the hoped-for new era of harmony has never arrived.

The region's political parties have done almost nothing for the common good, preferring to protect their own militiamen or enlist them in the police rather than help establish the rule of law. Many people risk being killed or kidnapped, especially Sunnis, former members of Mr Hussein's Baath party, those whose behaviour offends puritanical militiamen, and middle-class people who look as if they could pay a fat ransom. Most Basrawis moan about the bullying by militiamen or police (often the same thing) at impromptu checkpoints, the corpses found a few yards from police stations, and the authorities' inability or unwillingness to stop such horrors.

Who is guilty?

Some blame rising sectarian tensions across Iraq, others blame a foreign hand, be it British or Iranian, but many say the troubles are largely of the Basrawi politicians' own making, albeit enhanced by Iraq's general lawlessness and the corrupting influence of oil smuggling that Mr Hussein started in order to dodge sanctions imposed by the UN back in 1991.

But even by Iraqi standards, Basra's government is weak and divided. Elsewhere in the south, the strongest force locally has usually been the Supreme Council for Islamic Revolution in Iraq (SCIRI), an Islamist Shia party strongly tied to the clergy. In Basra, a SCIRI-linked coalition won 20 of the provincial council's 41 seats in the election of January 2005, but the coalition was divided. The province's powerful governorship went to the small but well-organised Fadila party, which follows the radical ideology of the late Grand Ayatollah Muhammad Sadeq al-Sadr but rejects the authority of his son, Muqtada al-Sadr, who took over most of his father's clerical network in order to set up his Mahdi Army.

Since then, Fadila has built up its own power base and web of patronage. “If you want a job, go and pray under that awning,” runs a graffito on a wall beside a Fadila-run mosque. Many senior policemen are Fadila appointees. The party controls the oil ministry's provincial branch and has turned a private security force meant to guard Basra's oil infrastructure into its own militia. Other militias loyal to SCIRI and the mainstream Sadrists also run local rackets, especially oil smuggling, which, by some estimates, is worth $4 billion a year nationwide.

The 8,000-strong British force in Iraq's four southern provinces has been dragged into the mess. A British decision to round up allegedly corrupt police prompted Basra's city council to cut relations; they have since been restored. Attacks on the British by insurgents thought mainly to be followers of Mr Sadr's Mahdi Army have increased, though some British officers blame the attacks on splinter groups, possibly led by local gangsters, without Mr Sadr's approval. The sophisticated technology used in the attacks, as well as other evidence, suggests that other groups hitting the British are linked to Iran's security services.

More than a score of British soldiers have been killed in the past year, including five in a helicopter crash, the cause of which remains uncertain. Some analysts say the British have given up trying to impose full control and instead are letting some of the militias rule their local roosts, so long as they lay off the British forces.

In May, in an effort to restore order, Iraq's newly installed prime minister, Nuri al-Maliki, declared a state of emergency in the south and told the Iraqi army, which, unlike the police, has stayed fairly free of party entanglements, to get a grip. Things got a bit better but the militias are unrepentant; violence could flare again any time.

In any event, the British say they are set to withdraw gradually from the south. Last month they (and their Australian and Japanese allies) handed control of the most sparsely-populated of the four provinces, Muthanna, to Iraqi forces, thanks largely to powerful local tribes keeping the peace. Iraqi and British officials say that another southern province, Dhi Qar, is just about ready for a handover. Even Maysan, a lawless province where tribesmen clash with the British and each other, may soon be handed over, partly on the ground that there is a rough balance of power between the competing factions and, anyway, the people of Maysan have long been accustomed to more violence than the city folk of Basra.

What can be done?

Yet Basra, the south's most populous and rich province, with Iraq's biggest oil fields, is least ready to be handed over. A year ago, Basrawis clamoured loudly for regional autonomy, but now many want the central government to step in and curb the militias. Mr Maliki set up a “Basra security committee” that was supposed to appoint a supremo to crack down on police corruption and militias, but Fadila hinted it might not co-operate. The new oil minister, Hussein al-Shahristani, says that by cutting fuel subsidies and stopping a fuel handout to Basra's fishing fleet he has reduced the smuggling which helped fund Basra's criminal gangs.

But the central government's power is limited. Some Basrawis hope that Fadila will get kicked out in coming elections but they are unlikely to be held soon. In any event, Iraqi elections, at any level, have

rarely been won by reformist technocrats, unless they have struck deals with the party machines. If Fadila were ousted, either SCIRI or Muqtada al-Sadr's wing of the Sadrists, both running militias and neither known for their competence, would probably take over. So the British may have to stay in Iraq's increasingly lawless southern province for a good while yet.

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Iraqi Kurdistan

From killing zone to safe haven

Aug 10th 2006 | ARBIL
From The Economist print edition

In a reversal of roles, Iraq's Arabs are seeking safety among the Kurds

Get article background

NO ONE was happier at the death in June of Abu Musab al-Zarqawi, the proclaimed leader of al-Qaeda in Iraq, than Jamal Hussein. The morning before an American air-strike killed Iraq's top terrorist, the 38-year-old civil servant woke up to find a note slipped under the door of his flat in western Baghdad. It called him “a Shia son of the devil” and said he had a week to leave or he would be killed. He had heard of such threats before and shrugged them off, but this one was different: it was signed by al-Qaeda in Iraq. Within hours Mr Hussein, his wife and two young sons had thrown their worldly goods into the back of a cousin's pick-up truck and were heading north along the bandit-ridden roads out of Baghdad towards the calm of Kurdistan.

They are among thousands of Iraqis who have arrived in the northern self-rule provinces since the bombing of a Shia shrine at Samarra in February unleashed a wave of sectarian violence in Baghdad and surrounding areas that is still going on. Since the first Gulf war ended in 1991, Iraqi Kurdistan had been a safe haven for Kurds seeking to protect themselves from Saddam Hussein's genocidal tendencies. Now it has become a sanctuary for anyone wanting to escape sectarian violence in central Iraq, especially in and around Baghdad.

Many Iraqis with cash and connections have already resettled abroad. But Iraq's new ministry of displacement and migration says that more than 200,000 Iraqis have been displaced within the country by violence since February. Some 1,250 families are relocating every week. “Threats, rumours, revenge killings, terrorism, kidnappings, sectarian strife, trigger-happy American soldiers and just plain old violent crime” are the main causes, says a senior civil servant.

Neither UN agencies nor Kurdish officials have exact figures, but a fair guess is that, as well as the 200,000 mentioned as displaced, another 40,000-50,000 have sought sanctuary in Kurdistan. Many are Christians and Kurds; and Baghdad's entire Sabean-Mandean populace, which adheres to a pre-Islamic faith and numbers around 25,000, is said to have asked the Kurdish authorities for a haven. A lot, however, are middle-class Sunni Arabs from Baghdad and Mosul, Iraq's biggest northern city.

The influx has squeezed Kurdish services. Housing is scarce; rents are soaring. But most Kurds, with their own long history of uncertainty and displacement, have been kind to the newcomers. Moreover, Kurdish officials are seizing a chance to beef up the workforce. Labourers from southern Iraq now toil away in the heat on Kurdistan's many building projects, while some of Baghdad's top academics are now teaching in Kurdish universities, dentists and doctors are finding jobs, and experienced civil servants such as Mr Hussein are working in Iraqi Kurdistan's ministries.

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Seychelles

A president in paradise

Aug 10th 2006 | VICTORIA
From The Economist print edition

Harmony reigns but the economy risks running into the sands

BEST known as a destination for honeymooners in search of perfect white beaches and swaying palms, the Seychelle islands rarely make any sort of headlines. Few tourists would even have noticed the presidential election on July 30th, in which James Michel, leader of the Seychelles People's Progressive Front, was returned with 54% of the ballot. For Mr Michel, it was the first time he had faced the islands' 62,000-odd voters, having been promoted from vice-president two years ago by his predecessor, Albert René, who had ruled the islands for 27 years since taking power in a coup in 1977.

To the casual eye, Seychelles seems both fortunate and well-governed. The 115 islands, most of them uninhabited, cover a mere 445 square kilometres (175 square miles) of the Indian Ocean, north of Madagascar, and enjoy several advantages over most of the rest of Africa. The weather is never extreme. There is no malaria. The islanders have free education and health care. Their multiracial society is pretty harmonious. With GDP at around $8,000 a head, there is almost no discernible poverty.

But this standard of living has come at a cost: the IMF says its public debt is too high and may be unsustainable. Mr Michel's main opposition, the Seychelles National Party, which scored 46% in the elections, claims that Seychelles, per person, is the world's most indebted country; with some $590m of external debt for just 82,000 people, it is certainly one of them. A black market in foreign currency already exists as speculation persists that the government, unable to meet its obligations, may be forced to devalue. Basic consumer goods sometimes run out. If, as the IMF predicts, GDP falls by over 1% this year, Mr Michel may find his next five years in power more testing than he had hoped.

The country needs more ways of making money. In the cold war, it was easy. The Seychelles played each side off against the other, remaining a member of the Commonwealth as well as the Non-Aligned Movement and taking military aid from the Soviet Union while leasing a satellite tracking station to the Americans. Since those streams of revenue dried up, the main Seychellois streams of revenue have been from tourism—leasing land to foreign hoteliers—and from tuna: the government earns about $200m a year from selling tuna-fishing licences to Spain, France and South Korea.

But conflict in the Middle East has brought Seychelles an unexpected bonus: Western warships stop off in the islands, which offer rest and recreation. The soldiers and sailors scuba-dive, sail and drink Seybrew, the local beer—and pay for it all in hard currency.

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Jean-Marie Le Pen

The wily old trooper won't go away

Aug 10th 2006 | PARIS
From The Economist print edition

AFP

As more respectable candidates prepare to do battle for the French presidency, the elderly champion of the far right continues to haunt them

WHILE French voters bask in the August sun, many politicians are busy, aware that in a few weeks' time, the 2007 presidential contest will be grabbing headlines. A lot of attention has focused on the candidates for the mainstream left and right, who now seem likely to be, respectively, Ségolène Royal and Nicolas Sarkozy. Yet there is a third force in politics, whose voice is less audible, but hardly less resonant: the far-right's Jean-Marie Le Pen.

Because the National Front leader has no seat in the French parliament, he seldom makes a big splash in the media. Yet the 78-year-old ex-paratrooper, who made it into the 2002 presidential run-off against Jacques Chirac, still wields a baleful influence over the body politic.

Despite his relative invisibility and voters' reluctance to admit supporting him, polls consistently give him around 12-15% of the national vote. In a fragmented landscape, where Mr Chirac secured only 19.9% in the 2002 first round, that is a lot. One poll, by TNS-Sofres, suggested that Mr Le Pen's popularity in May this year was 18%—its highest for ten years. In June 2001, a year before his spectacular breakthrough, his rating was barely 9%.

Why does he remain so popular? One reason, of course, is his crude appeal to xenophobia, and his claim to be the only politician who foresaw France's problems in absorbing immigrants. After the riots that swept the slum-suburbs last year, the National Front ran a poster campaign that read: “Immigration, explosion of the *banlieues*—Le Pen told you so!”

In any case, fears over immigration, crime and security are now a mainstream concern, not just an extremist one. In the words of Robert Badinter, a senator, there has been a “LePen-isation” of French minds. These days, when Mr Le Pen talks about a “migratory invasion” and gives dark warnings that “the original population is going to be submerged”, not everybody is shocked; the language of the political centre has also moved that way.

Apart from fiery rhetoric, Mr Le Pen has some concrete demands: an immediate expulsion of all illegal

immigrants, and a tightening of the nationality law. He deplores the recent decision by Mr Sarkozy, as interior minister, to grant amnesty to a third of the illegal newcomers whose children attend French schools.

Yet immigrant-bashing populism is only one source of Mr Le Pen's high ratings. Nearly as appealing are his attacks on the “elite”—the close-knit political class. The feeling that real power in France lies with a network of cronies has always been strong (on the communist left as well as the right) and Mr Le Pen has made skilful use of some recent developments—including the financial-political scandal known as Clearstream—that increase that sense.

It depends on the runners

*Who would you vote for in the presidential election? %**

If Sarkozy represents the centre-right...		...or if de Villepin does	
Nicolas Sarkozy	35	Ségolène Royal	35
Ségolène Royal	29	Jean-Marie Le Pen	18
Jean-Marie Le Pen	13	Dominique de Villepin	13
François Bayrou	6	François Bayrou	6

Source: Ipsos/*Le Point* *July

The French no longer trust their politicians, he argues, because they have heard many false promises. Politicians said the euro would bring growth and jobs; voters see neither. When Dominique de Villepin, the prime minister, says unemployment has fallen to 9%, and will drop to 8% next year, many citizens don't believe him: the figures, they say, must be wrong.

Could the far-right leader repeat his 2002 performance next year? Quite possibly. Fully 23% of voters said in one recent poll that they agreed with Mr Le Pen's ideas, and 31% wanted him to stand again. No fewer than 36% guessed he would again make it into the second round.

His chances depend largely on who his rivals are. Polls suggest that if the charismatic Ms Royal were Socialist candidate, she and Mr Sarkozy would breeze into the run-off. But if François Hollande, the Socialist Party leader, represented the left, he might get 19% to Mr Le Pen's 11%—a closer race. “Envisaging a first-round score of 15% to 20% for Le Pen wouldn't be totally absurd,” says Brice Teinturier, of TNS-Sofres.

Many things could change before the election. The fact that the centre-right and the far right are competing to address fears of immigration could play out in different ways. Mr Sarkozy has been hardening his own anti-immigration and security talk, partly in a bid to woo National Front voters; as a result, he would give Mr Le Pen a harder contest than, say, Mr De Villepin.

How far can Mr Sarkozy go in stealing the National Front's clothes? Roughly half the party's support is considered solid, the remainder is less so. If the centre-right could win over half the waverers, it could grab three to four percentage points.

But as Mr Chirac has noted, opportunistic politicians may lose at the centre as many votes as they gain on the fringe. Anyway, Mr Le Pen is unfazed. “We used to be accused of political extremism,” he says. “Now people on the left, on the centre, on the right, use the same language. But voters prefer the original to the copy.”

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Screening Poland's past

We've got a little list

Aug 10th 2006 | WARSAW
From The Economist print edition

Cleaning up Poland's communist past is a messy business

SLEAZE, pervasive and corrosive, is either the biggest problem in Poland, or a myth created by paranoid bigots. For the centre-right government, spies old and new, with their deep connections to the communist past and crooked business chums, must be rooted out of public life. For much of the country's elite, that sounds dangerously like a witch-hunt.

Poland has largely dodged the issue of collaboration with the old secret police. That reflects the way in which Polish communism crumbled in the summer of 1989—by negotiation, and not abruptly. Later that year, in countries such as the then Czechoslovakia and East Germany, communism simply collapsed. In those places, screening was tough initially but, as a result, the issue has gone away.

Under Poland's current, limited, law, only around 27,000 holders of senior public office are subject to vetting. They must sign a statement that they never co-operated with the communist secret police; this is then checked—as far as possible—with the huge intelligence archives now run by the Institute of National Remembrance, known in Polish as the IPN.

Not everything in the IPN files is true—and many things that are true are not in them. Their selective use is poisonous, destroying careers and lives. Last year Bronislaw Wildstein, a prominent journalist then working at the IPN, leaked an unofficial list of up to 240,000 names contained in its files. This gave no indication of whether those cited were victims of the regime's surveillance or collaborators in it.

The case of Zyta Gilowska, finance minister until June, highlights the system's flaws. A secret police file seemed to incriminate her, so she was fired from the government. But once she ceased to be a public figure, the vetting court said it was unable to hear her case, or even tell her what she was accused of. She has now appealed, looks likely to be found innocent, and may even return to the government.

For Lech and Jaroslaw Kaczynski, the twins who are respectively Poland's president and prime minister, reforming all this borders on an obsession. The governing coalition is pushing through parliament a new law on vetting that will screen up to 500,000 people for contacts with communist-era secret services. Depending on how it is interpreted, the new law will include most civil servants, teachers, academics and managers of state firms. The IPN will take over from the court.

But the new bill has some big drawbacks. One is that it is poorly drafted. It seems not to distinguish between those who were contacted by the secret police but declined to co-operate, and those who collaborated actively. In effect, that creates a presumption of guilt. People risk losing their jobs if they cannot prove their innocence of a charge based on elderly files, peppered with forgeries and exaggerations. Another worry is that vetting may reveal snooped data on juicy but irrelevant matters such as personal gossip.

The lower house of parliament has hurriedly passed the new bill; the upper chamber is likely to amend it, to try to protect victims of totalitarianism from suffering twice. According to Jan Olszewski, a former opposition activist and prime minister, the parliamentary deputies who drafted the bill were mostly too young to have had much contact with communist rule. Senators, on the other hand, are older, and include more ex-dissidents who understand the dilemmas and contradictions of life under totalitarianism. Bogdan Borusewicz, the leader of the upper house and a founder of the Solidarity trade union that toppled communism, suggests starting from scratch: correcting the lower house's bill, he says, would be like “changing a cow into a horse”.

Whether bovine or equine, the bill is belated. Exposing communist-era collaboration might have been

useful in the 1990s. But nowadays the corruption and abuse of power that have flourished in the post-communist era are a bigger issue.

To tackle that problem, the government has set up a powerful new anti-corruption agency. It is also screening all 2,000-odd officers of the WSI, the military intelligence service. This is the biggest bugbear: a lawless, unreformed communist-era bureaucracy, the government says, that has escaped all political control.

This week the deadline expired for WSI officers to confess to past misdeeds, including leaking secrets, hindering criminal proceedings, using violence, illegally influencing the authorities or having unauthorised contacts with businessmen or journalists. Once checked and absolved, their authors may then join the new military intelligence services to be formed on October 1st. Some worry that this is all too quick, too politicised, and may disrupt Poland's military security.

Cleaning up public life in Poland is a fine aim. Having waited so long, it would be a pity not to do it properly.

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Repression in Belarus

Several more turns of the screw

Aug 10th 2006 | MOSCOW
From The Economist print edition

A paranoid leader lashes out on all sides against his imagined foes

IT IS against the law in Belarus to do lots of things that are unobjectionable in most countries. It is also, apparently, against the law just to think about doing some of them. On August 4th four people were jailed, for between six months and two years, for belonging to an unregistered organisation, that "infringes upon the interests and rights of citizens". Their offence? Planning to monitor the rigged presidential election in March; they were arrested in February to stop them doing so.

In most other countries, a leader in Alyaksandr Lukashenka's position would feel buoyant. President of Belarus since 1994, he claimed another landslide victory. But he has celebrated by incarcerating many of his political opponents and their supporters, mostly for short periods. These have included Alyaksandr Milinkevic, who according to official results was Mr Lukashenka's closest (though not very close) rival in the election. If a pretext for locking people up proves elusive, they are said to have sworn at the police.

Perhaps Mr Lukashenka frets that, in such a well-smothered country, he can't tell how popular he really is. Probably he wants to stamp on the opposition before its momentum gathers. The president, speculates one opposition activist, needs to "show he is not going to change his methods", and thus that the protests that followed the election had no impact.

Fear, mixed with vengeance, seems to explain the persecution of Alyaksandr Kozulin, another opposition candidate, who was last month jailed for five and a half years, after being convicted of hooliganism and inciting disorder; he was arrested after leading a post-election protest. Mr Kozulin's blunt verbal attacks on the president seemed to trouble Mr Lukashenka more than the professorial Mr Milinkevic.

Foreign foes are also being punished. The government has provoked a row with Latvia—one of the countries Mr Lukashenka says is plotting against him—by broadcasting covertly filmed footage of gay sex, purportedly involving a Latvian diplomat. A police raid supposedly implicated the Latvian in the distribution of pornography: a favourite slur of the Belarusian KGB. "Even in Cuba," says another Minsk-based diplomat of the raid, "they don't do that." "An outrageous violation of diplomatic protocol," says David Kramer, of America's State Department. (The scandal may backfire: elderly Belarusians were shocked that the footage was broadcast.)

For their part, America and the European Union have banned assorted Belarusian officials from entering their countries, and are trying to freeze their foreign assets (though not much loot seems to have turned up). Mr Lukashenka has been left to share his celebrations with Hugo Chávez of Venezuela, a fellow pariah who visited Minsk last month, and with his friends in Russia.

Even they may be turning: Gazprom, Russia's gas-export monopoly, is threatening Belarus with a potentially disastrous price rise. Gazprom has long wanted to take over the Belarusian pipeline network; the Russians may calculate that, isolated and paranoid as he is, their ally Mr Lukashenka might now comply.

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Slovakia's odd coalition

Iffy and whiffy

Aug 10th 2006
From The Economist print edition

Slovakia's new government is neither mad nor bad. That's mildly reassuring

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NIGHTMARES in ex-communist politics feature populist, racist and authoritarian parties. So Slovakia's new coalition government, consisting of all three, promised sweat-drenched nights for liberal-minded Slovaks and outsiders alike. But not all bad dreams come true.

A prime bogeyman for outsiders and liberal-minded Slovaks is Jan Slota, the leader of the radical right-wing Slovak National Party. He is known for his intemperate remarks about the country's Roma (Gypsy) and Hungarian minorities. The former, he said, were a problem best approached with a “long whip in a small yard”. He once said he would like to flatten the Hungarian capital, Budapest, with a tank. His convivial lifestyle attracts attention too (he explained an anti-Hungarian remark by pleading drunkenness).

But he has been sidelined. His party, which polled 11.7% and won 20 seats in the 150-member parliament, has just three ministers, none of them important.

A second creature of the night is Vladimir Meciar. As prime minister until 1998, he made Slovakia a pariah in western eyes, and a paradise for goons and gangsters. But, like Mr Slota, Mr Meciar is not in the government. His party won 15 seats and has two ministers, neither in big jobs. Top posts in the police and the security services, magnets for power-hungry Meciarites, have gone to neutral candidates.

The third spectre is the economic populism of Smer (Direction), the main coalition party. Its leader, Robert Fico, is now prime minister. He used to talk about ending Slovakia's flat tax, stoking welfare spending and intervening more in the economy. But the government programme launched last week offered only vague and watered-down versions of these plans.

Higher spending, chiefly on education, health and pensions, plus lower VAT on some items may cost 40 billion koruna ($1.5 billion), according to the Bratislava office of ING, a bank. “Millionaires”, as the government calls those earning more than €1,300 ($1,670) a month, may pay more income tax. The net result will be a higher budget deficit, at least 2.2% of GDP by the year-end. But the government insists Slovakia will adopt the euro in January 2009.

Given the cost of propping up the koruna as the government wobbled into place, joining the common currency soon seems wise. After blowing more than €3 billion on backing the currency, the central bank last week raised interest rates by 50 basis points. Any more rude shocks would have left Slovakia looking vulnerable.

Slower privatisation, softer policies and fiddlier taxes may be regrettable in a country noted until recently for its radical reforms. But they do not spell doom. The bigger worry is competence. Few in the government have held office before. The finance minister, Jan Pociatek, is a notable lightweight, best-known as a restaurateur with a penchant for flashy motorcycles. In the parliamentary debate last week on the government programme, he repeatedly declined opposition invitations to elaborate on the spending plans.

A lacklustre team of ministers means that Mr Fico's strong personality will dominate the government. It is reassuring that he wants to keep Slovakia in Europe's political and economic mainstream. But making public finances shipshape for the euro while keeping his supporters and coalition partners happy will be hard.

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Bosnia's pyramids

A towering success

Aug 10th 2006 | VISOKO
From The Economist print edition

Crank or genius, a Bosnian history buff makes a small town smile

AP

Anyone for a pyramid?

BOSNIANS have a salty, cynical attitude to life and their recent experience of warmongers and demagogues has given them a healthy immunity to anybody who makes extravagant claims about the past or the future. But occasionally, somebody convinces them that something new and exciting is going on.

Take the little town of Visoko, a normally sleepy place that is enjoying an improvement in its fortunes because a self-taught archaeologist is convinced that he has discovered real pyramids—yes, man-made structures similar to the ones in Egypt and Mexico.

Semir Osmanagic is a Bosnian-American who runs a firm that makes steel components in Houston. He is an amateur historian who loves pyramids. To guffaws from conventional academics, Mr Osmanagic says he has found some of his favourite things in his homeland.

Even if that proves to be nonsense, Visoko is enjoying the fuss. Dario Pekic, a hotelier, says it was dead until “the Pharoah” came along. “In the past five years we have not had 12,000 tourists—now we can have 5,000 a day.”

Mr Osmanagic says it struck him in April 2005 that a pyramid-shaped hill in Visoko was in fact a real pyramid. Then, he says, he realised that there were two others nearby. Digging began in earnest this April, and the discoveries certainly give rise to some interesting questions.

On one “pyramid” Mr Osmanagic appears to have unearthed large slabs of what he says is ancient concrete, and on another what look like paved walkways. Bosnians have overcome their usual scepticism, and happy coachloads of them are descending on Visoko. Stalls sell “Pharaoh Osmanagic” T-shirts and model pyramids. Restaurants serve pyramid-shaped pizzas.

Mr Osmanagic's theories sound fantastical. He believes that the biggest pyramid is one-third taller than Egypt's Great Pyramid, and that they were built by an ancient civilisation 12,500 years ago. “Yes,” says Mr Osmanagic, who has been denounced by Bosnian archaeologists as a hallucinating lunatic, “we are rewriting the history of the world.” Indeed. Mr Osmanagic, who has also written about survivors from the mythical island of Atlantis who built pyramids in Central America—and about Hitler escaping in the direction of the Antarctic in 1945—says his enemies are just jealous.

In Sarajevo, sophisticated Bosnians squirm with embarrassment over the pyramid story. “It makes me ashamed to be Bosnian,” says Hrvoje Batinic, of the Open Society Fund, an NGO. But others say that, even if Mr Osmanagic has not discovered pyramids, he is on to something. And Elma Kovacevic, a volunteer in Mr Osmanagic's team, says breezily: “The pyramids will help us speed the development of the economy, and when we have done that the EU will accept us.” Stranger things have happened.

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Nuclear power

Reacting badly to summer heat

Aug 10th 2006
From The Economist print edition

Heavy weather for Europe's nuclear plants

Get article background

FOR an industry said to be on the verge of a renaissance, nuclear power has not been coping very well with an exceptionally hot European summer. On August 8th the firm that runs Finland's grid announced that the country might run short of power in 2009, partly as a result of delays in the construction of a new nuclear reactor, Europe's first in over a decade. Earlier this month the Swedish government ordered the indefinite closure of four reactors while it investigated the failure of several safety systems during a power surge at one of them. Spanish authorities, meanwhile, have slapped one of their nuclear plants with a record fine of €1.6m ($2.1m) for poor maintenance in 2004. All summer, nuclear plants across Europe have had to trim output to avoid breaching environmental regulations.

The most serious incident took place at Forsmark I, one of three reactors 130km (80 miles) north of Stockholm. On July 25th a short circuit on the national grid cut the plant off from the mains. An accompanying power surge knocked out two of the four generators that provide the back-up power needed to shut down the reactor. Somehow, both a mechanism that protects against power surges and an auxiliary connection to the grid failed. Happily, other safety systems worked as advertised, and staff were able to shut the reactor down safely within 45 minutes.

Despite the claims of some alarmist commentators, says Vattenfall, the utility that owns the reactor, it was always several failsafes away from a meltdown. Spokesmen were quick to point out that most of Europe's reactors follow different designs, and so could not suffer from the same flaw. But the episode has revived a political row over nuclear power ahead of elections next month. In theory, Sweden is weaning itself off nuclear power, as mandated by a referendum in 1980. In practice, the government has not set a date to decommission any of the ten remaining plants, for want of a more palatable alternative.

In fact, a prolonged drought has been sapping Sweden's other main source of power, hydroelectric plants. Elsewhere in Europe, hot, dry weather has not only drained reservoirs and pushed up demand for power to run air conditioners; it has also warmed up the rivers used as a source of water to cool many nuclear reactors. In most countries, environmental rules prevent nuclear power stations from releasing water above a certain temperature back into rivers. The hotter the water is to begin with, the harder it is to comply. Last month, a few nuclear plants in Spain and Germany had to scale back their operations to meet the rules. Other German plants, and many French ones, secured government approval to exceed the temperature limits. Similar regulations crimped operations at coal-powered plants too.

In late July, as a result of all this, European wholesale electricity prices hit record levels. Such spikes will become more frequent if, as many project, global warming brings more stifling summers, and more power-hungry appliances to cope with them. If that happens, Europe will clearly need extra generating capacity—but the past few weeks have given many reasons to wonder whether nuclear is the right source.

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Terrorist threat

A plot, and chaos

Aug 10th 2006
From The Economist print edition

Security services believe they have foiled a major attack

AFP

HEATHROW, London's main airport, is normally thronged with cross people in queues at this time of year. But on August 10th the lines became serpentine and the people in them more anxious than querulous as news spread that the police and security services had been working overnight to interrupt a plot to blow up a dozen planes bound for America. Passengers were allowed to carry only cash, passports and travel documents onto their flights. Liquids, and anything that could conceal a detonator, were whisked away. Mothers were made to sip baby milk before being allowed to take it on board.

The chaos did not stop there. European carriers including Lufthansa and Air France cancelled flights to London and farther-flung Air New Zealand warned of delays. In America, passengers bound for Britain were prevented from taking drinks, hair gel or other lotions on board.

This is not the first plot involving passenger planes that Britain's security services have become aware of. In 2003 Tony Blair strengthened security at Heathrow with 450 troops in light tanks and 1,000 extra policemen, although many criticised the army's presence as melodramatic and unnecessary. In August 2004 officials claimed to have thwarted another terrorist attempt after a suspected al-Qaeda computer expert arrested in Pakistan was found to have photographs of the airport. John Reid, the home secretary, reckons that in total around 20 such conspiracies have been discovered by MI5, the domestic intelligence service, MI6, the foreign intelligence service, and the police.

But intelligence sources think that this was potentially the most lethal attempt so far. The plan seems to have involved taking liquid explosives, or explosives masked by liquid, into aircraft cabins. The devices would apparently have been undetectable by conventional airport security checks, and intelligence sources say they would have detonated successfully. Even a small blast at a critical point on an aircraft's fuselage could puncture the outside skin, causing rapid depressurisation and a lethal crash. If placed in the baggage hold, the bombs would have been less effective. They would have to have been triggered either by a timer of some kind or a remote-control device, both of which are more easily detected in baggage checks.

Intelligence sources also say the plan involved phased attacks, targeting about a dozen planes and

possibly concentrated on British and American airlines. They said the attacks were foiled after a surveillance operation lasting many months and with only days, perhaps, in hand. In Washington, security officials suggested that the bombers had targeted United, American and Continental airlines. The Department of Homeland Security raised its colour-coded threat warning to red, for certain flights, for the first time since its inception.

This was the first plot to be thwarted in Britain since the government decided last month that it too would make public the threat assessment of its Joint Terrorism Analysis Centre. The hope was that giving the warning more publicity would make the government look in control and make the public vigilant rather than just scared. The level was raised, on August 10th, from “severe” to “critical”. But Mr Reid's speech the day before the police operation—in which he said that although he was “confident that the security services and police will deliver 100% effort and 100% dedication”, they could not guarantee 100% success—was a reminder that a certain amount of fear is rational.

By mid-day on Thursday, 21 people, at least some of them British citizens, had been arrested by police in London and Birmingham. Sources say, unsurprisingly, that the bombers have links to Pakistan. The plot appears to have been modelled on another failed terrorist attack foiled in Manila in 1995. That plan, which involved blowing up 11 jumbo jets over the Pacific in a two-day period, was planned by ethnic Pakistanis with ties to Kuwait: Ramzi Yousef and his relative, Khalid Sheikh Mohammed, architect of the attacks on September 11th 2001. But there was a big difference between the two plans: the main Manila plot was not designed to use suicide-bombers as this one evidently was. Instead, the terrorists intended to plant their bombs during the first stage of their two-leg journey and get away during the stopover.

Financial markets reacted quickly to the news on August 10th, with European shares registering their steepest fall in two months. Airlines had seen travel grow by 6.7% in the first six months of the year and hoped for more of the same. There is little chance of that now.

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Class

But did they buy their own furniture?

Aug 10th 2006
From The Economist print edition

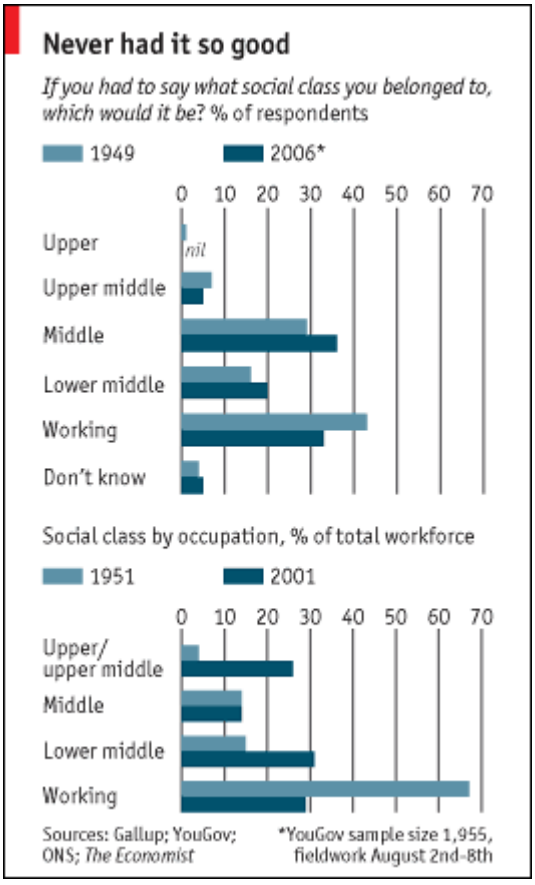
Class is no longer a reliable guide to anything in Britain. But it still matters

WHEN George Orwell wrote in 1941 that England was "the most class-ridden country under the sun", he was only partly right. Societies have always had their hierarchies, with some group—Boston's Brahmins, France's *énarques*, the Communist Party of China—perched at the top. In the Indian state of Bihar the Ranveer Sena, an upper-caste private army, even killed to stay there.

By that measure class in Britain hardly seems entrenched. But in another way Orwell was right, and continues to be. As a new YouGov poll for *The Economist* shows, Britons are surprisingly alert to class—both their own and that of others. And they still think class is sticky. According to the poll, 48% of people aged 30 or over say they expect to end up better off than their parents. But only 28% expect to end up in a different class. More than two-thirds think neither they nor their children will leave the class they were born into.

What does this thing that people cannot escape consist of these days? And what do people look at when decoding which class someone belongs to? The most useful identifying markers, according to the poll, are occupation, address, accent and income, in that order. The fact that income comes fourth is revealing: though some of the habits and attitudes that class used to define are more widely spread than they were, class still indicates something less blunt than mere wealth. Being the sort of person who "buys his own furniture", a remark that Alan Clark, a former minister and diarist once reported as directed at Michael Heseltine, a self-made Tory colleague, is still worthy of note in circles where most inherit it.

Occupation is the most trusted guide to class, but changes in the labour market have made that harder to read than when Orwell was writing. Manual workers (C2s and Ds in sociology-speak) have shrunk along with farming and heavy industry as a proportion of the workforce, while the number of people in white-collar jobs (ABC1s) has surged (see chart). Despite this striking change, when they are asked to place themselves in a class, Brits in 2006 huddle in much the same categories as they did when they were asked in 1949. There has been a slight fall in the number who reckon they are at either the very top or the very bottom of the pile, consistent with the move to working behind desks and in air-conditioned places. But jobs, which were once a fairly reliable guide to class, have become misleading.



A survey conducted earlier this year by Experian for Liverpool Victoria, a financial-services firm, shows how this convergence on similar types of work has blurred class boundaries. Experian asked people in a number of different jobs to place themselves in the working class or the middle class. Secretaries, waiters and journalists were significantly more likely to think themselves middle-class than accountants, computer programmers or civil servants. Many new white-collar jobs—in vast call centres, for example—offer no more autonomy or better prospects than old blue-collar ones. Yet despite the muddle over what the markers of class are these days, 71% of those polled by YouGov still said they found it very or fairly easy to figure out which class others belong to.

In addition to changes in the labour market, two other things have smudged the borders on the class map. First, since 1945 Britain has received large numbers of immigrants who do not fit easily into existing notions of class and may have their own pyramids to scramble up. The flow of new arrivals has increased since the late 1990s, multiplying this effect.

Second, barriers to fame have been lowered. Britain's fast-growing ranks of celebrities—like David Beckham and his wife Victoria ("Posh")—form a kind of parallel aristocracy open to talent, or at least to those who are uninhibited enough to meet the increasingly baroque requests of television producers. This too has made definitions more complicated.

Yet class categories remain surprisingly resilient, which seems to fly in the face of recent economic reality. Does it correspond to a new treacliness in social mobility? The best-known findings about the fluidity of British society comes from a study of two cohorts: one made up of people born in 1958, the other of people born in 1970. The earlier group enjoyed a high degree of mobility but the later one was less fortunate, suggesting that movement between income groups is slowing down. Recent international studies indicate that British social strata are a bit more flexible than America's but more rigid than in many European countries.

In fact, it seems that many Brits, given the choice, prefer to identify with the class they were born into rather than that which their jobs or income would suggest. This often entails pretending to be more humble than is actually the case: 22% of ABC1s told YouGov that they consider themselves working class. Likewise, the Experian survey found that one in ten adults who call themselves working class are in the richest quintile of asset-owners, and that over half a million households which earn more than £100,000 ($191,000) a year say they are working class. Dissimulation in the other direction—pretending to be grander than income and occupation suggest—is rarer, though it happens too.

If class no longer describes a clear social, economic or even political status, is it worth paying any attention to? Possibly, yes. It is still in most cases closely correlated with educational attainment and career expectations. And what societies believe about how fluid they are matters almost as much as the reality: if America's poor ever start to believe they will never get rich, the place will be heading for trouble. In Britain the perception that class is fairly fixed could become more damaging if income inequality continues to rise and social mobility to slow.

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A-level exams

Less than meets the eye

Aug 10th 2006
From The Economist print edition

The gold standard loses its gleam

SHINY-EYED 18-year-olds clutching paper proof of three top grades will no doubt appear on newspapers' front pages next week, when A-level results are published. But they are unlikely to feel quite as jubilant as they would have done a decade ago. Every summer A-level results are met with scornful claims that the exams have grown easier. Even if the proportion of A grades does not rise this time—last year it went up by 0.4%, the lowest increase since 2000—around a quarter of A-level entries are still likely to score an A. In 1991 fewer than 12% got the top mark.

Whether A-level exams are really getting easier or whether, as the government says, the higher marks are down to improved teaching is hard to judge. Changing syllabuses and subjects make it difficult to track standards over time. But even if they are not easier—unlikely as it seems—A levels are certainly too easy. Top universities with far more applicants than places say they cannot distinguish between the brilliant and the bright: all have anodyne batches of A grades.

Some universities have stopped trying and look at other criteria when judging top-scoring applicants. Others are introducing their own entrance exams. Yet it was only a decade ago that Oxford followed Cambridge in abolishing them, mainly because they seemed unfair to state-school pupils who were less likely to have been coached for them.

There are other criticisms, too, of the A-level system, which restricts students over the age of 16 to studying just three or four subjects of their choice. Many abandon sciences, maths, languages, even English at this tender age. Some dons complain that students arrive at universities in need of remedial teaching. Worse, employers say that workers from all rungs of the educational ladder do not know how to calculate or communicate effectively.

With secondary education under fire, an officially-commissioned inquiry found in 2004 that A levels lacked breadth and challenge. It proposed scrapping them, along with GCSEs, and introducing instead an overarching diploma covering both academic and vocational qualifications. The government rejected this idea but recognised that A levels need to be reformed. It is looking at setting more probing questions and perhaps adding an A* grade, as at GCSEs.

But many schools think that such reforms will not go far enough. More are now offering the International Baccalaureate (IB), for which pupils are required to study six subjects, including science, maths and a foreign language, and write a long essay. In 2000, 34 schools ran the IB; the figure will exceed 100 next year. Windermere St Anne's, a private school in Cumbria that is switching to the IB, says that university admissions tutors look especially favourably upon pupils with IBs. And recently the Universities and Colleges Admissions Service said that the cleverest A-level students seemed less qualified than equally bright IB pupils

The growing popularity of the IB is causing concern that pupils without access to it may soon find themselves at a disadvantage. There are not enough science teachers for all schools to offer the IB, even if they wanted to. And although more than half of IB schools are in the state sector, many would balk at the expense and hassle of running the IB alongside A levels.

Other alternatives to A levels are also in the works. Fifty private schools—including high-profile establishments with strong academic records such as Rugby and Shrewsbury—are working with Cambridge University International Examinations to develop the “Pre-U”. Less prescriptive in its subject coverage than the IB, it will be tougher and broader than A levels, with an additional extended essay. But unless the government accredits the course, state schools will not be able to offer it, and poor children

will find it even harder to compete with richer ones than they do under what was once known as the “gold standard” of secondary education.

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British sports cars

Losing their panache

Aug 10th 2006
From The Economist print edition

If even Jaguar can't design cars people like, what hope for the rest of Britain?

JAGUAR drivers used to peering down sleek, long bonnets might be excused for showing equanimity in the face of life's little problems beyond their radiator grills. Less so Jaguar's managers, who have seemed eerily unruffled as they posted losses for most of the nearly 17 years since Ford bought the British carmaker. Such serenity could not last.

On August 2nd Ford announced that it had hired a top banker from Goldman Sachs to review its business, and Jaguar seems the obvious place to start. In December it needed a £1.2 billion bail-out after sales dropped by almost a quarter to fewer than 90,000 cars. Ford now has little hope of meeting its former target of 200,000.

The review has unnerved an industry that is trying to regain its composure after the collapse last year of MG Rover and the announcement in April that Peugeot would close its English plant. Jaguar's weakening sales are particularly disquieting: they suggest that the country's once-vaunted designers have lost their knack and that (with a few exceptions such as the Mini) Britain is destined to become an assembler of cars conceived elsewhere.

It was not always so. When Jaguar introduced its E-type sports car in 1961, not only was it the fastest mass-produced car in the world, but it also heralded a golden age of British design, says Jeremy Aynsley, a professor at the Royal College of Art. Reflected in its lines, he says, was the optimism of a country finally recovering from the wounds of the second world war.

In those heady years Britons mixed ideas from Europe and America and came up with their own distinctive product. They showed a flair for making the music (the Beatles), clothing (the miniskirt) and cars that people wanted. The E-type made such a splash that New York's Museum of Modern Art added one to its collection, calling it “one of the most influential and imitated” forms in sports car design.

But with time that reputation faded. After its runaway success in the 1960s, Jaguar proved reluctant to innovate in design or to improve its production methods. Bill Hayden, who took over when Jaguar was bought by Ford, said that “apart from some Russian factories in Gorky”, Jaguar's was the worst car plant he had seen.

Since then Ford has managed to improve Jaguar's production but not its design. With prices as low as £20,000, the X-type was meant to be sold at a rate of 100,000 a year to compete head-on with mid-sized Mercedes and BMW saloons. Instead, because it shared components with Ford's cheaper Mondeo, the X-type damaged Jaguar's brand. Its larger S-type similarly shared bits with Ford's Lincoln, and it too turned off a generation of drivers.

The moral, says Peter Cooke, a professor at Nottingham Business School, is that Jaguar should return to making expensive sports cars and avoid volume production. As for how, it need look no further than Rolls-Royce, which under BMW has more than doubled sales since 2003 (albeit to a leisurely 796 last year) or Bentley, which has quadrupled sales under Volkswagen in recent years to 8,627. Both companies say they are profitable. “Britain's real skill is putting together superbly engineered products where our high labour cost isn't important,” Mr Cooke says. “If we must, we can do volume production, but others can do it better.”

Customers appear to agree with him. Even though they turn up their noses at Jaguar's expensive cars, they love its exorbitant ones. Nine out of ten owners of the XK8 sports car (with a starting price of around £50,000) would recommend that a friend buy one too, according to a recent survey by *Which?*

Car magazine. That is quite an achievement: Jaguar ranked worst for reliability in the survey, with faults reported in almost half its new cars last year. Some wealthy drivers may find such faults endearingly old-fashioned; most do not.

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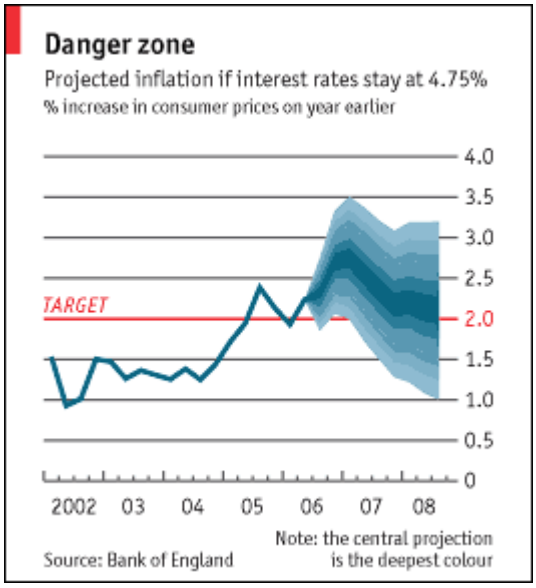
Interest rates

Inflation scare

Aug 10th 2006
From The Economist print edition

Why rates will rise again



THE Bank of England surprised financial markets on August 3rd when it raised the base rate from 4.5% to 4.75%. Its next step should prove less unsettling to the City. This week the bank indicated that a further increase is in the offing.

The bank signalled the rise in its quarterly *Inflation Report*, published on August 9th. This set out, as usual, both a central projection for inflation and the risks around it (see chart). The bank's main view is that if the base rate were to stay at 4.75%, the annual rate of consumer-price inflation would exceed 2.0%—the government's target—over the next two years. Since it takes that time for changes in monetary policy to have their maximum effect on inflation, the projection suggests the need for another rate rise.

The bank has become gloomier about inflation, especially over the next few months. According to the latest figures, consumer prices rose by 2.5% in the year to June, the fastest rate of increase (along with last September's) since the series began in 1997. The bank now thinks that further rises in household energy bills and still higher oil prices will push inflation up more over the next few months. And, towards the end of 2006, it expects higher university fees to add a quarter of a percentage point to inflation, something that was not included in previous forecasts.

As a result, there is now a big risk that inflation could rise above 3.0% around the turn of the year. If that were to happen, Mervyn King, the bank's governor, would have to write an explanatory letter to Gordon Brown. The chancellor of the exchequer requires this if inflation diverges from the 2.0% target in either direction by more than a percentage point. Since the bank was given independence to set interest rates in May 1997, this has never been necessary. But Mr King now thinks there is a 50% chance that he will have to write such a letter in the next six months.

A bigger worry still for Mr King is that the longer-term prospects for inflation have deteriorated. There are two main reasons for this. First, the bank now thinks there is less spare capacity than it did before. This follows the revisions to the national accounts made by official statisticians on June 30th, which raised the level of GDP at the start of the year by 0.7%. The bank accepts that there is a bit more slack in the labour market, which will temper pay pressures. However, it worries about surveys showing that companies face tighter capacity constraints.

Second, the bank does not draw much comfort from a likely moderation in energy-cost inflation. It fears that this will be accompanied by a recovery in profit margins and pay growth. A survey of companies by the bank's regional agents showed that profit margins had been squeezed in the 12 months to May and that this was contributing to a clampdown on wages. The bank's concern is that an easing in energy costs may cause a revival in pay pressures. It has unearthed evidence that over the past 15 or so years domestically-generated inflation has tended to move in the opposite direction to changes in import and energy prices.

The bank's hawkish line means that interest rates seem sure to rise by another quarter-point to 5%, probably in November. Whether they will rise beyond that is uncertain. Much will depend upon how strongly the economy continues to recover from its slowdown in 2005. The bank may be gloomy about

inflation but it is upbeat in its forecast for GDP growth, expected to be close to its average rate in the past decade. That prediction relies, however, on optimistic assumptions about a pick-up in consumer spending, which grew in 2005 by only 1.3%, the slowest since 1992.

This week's stern report sends a clear message designed to reinforce the rate increase on August 3rd. Inflation may be rising but Mr King and his fellow rate-setters are determined to keep it under control.

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About sponsorship

Commercial television

Cut!

Aug 10th 2006
From The Economist print edition

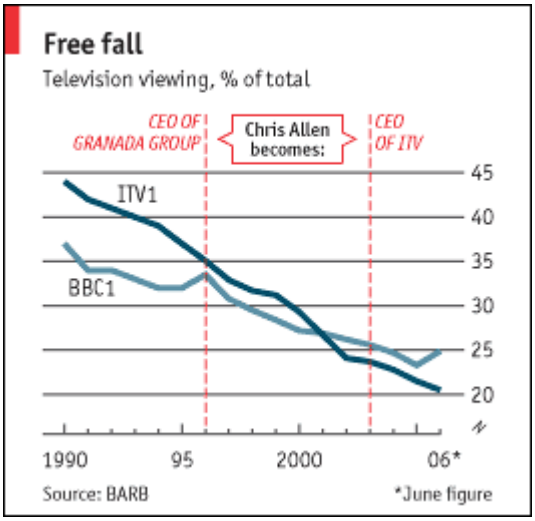
ITV's new boss will have a tough job

AS PLOT twists go, the announcement on August 8th that Charles Allen, the much-criticised boss of ITV, was to resign was no shocker. Britain's biggest commercial broadcaster has had a torrid few years. Shareholders have been increasingly restive since they beat off a private-equity bid in March and saw shares shed over a fifth of their value. During a disastrous summer season, ITV1's audience share has at times fallen as low as 16%. Its coverage of World Cup football was tedious and once successful shows such as Love Island (which strands nubile youngsters on a tropical island, with disappointingly non-pornographic results) achieved abysmal ratings.

Mid-year results published the very next day confirmed the firm's woes: profits were slightly higher in the six months to June than during the same period a year earlier, but only because several small businesses were sold. Advertising revenue fell 4% and audience share dropped as well, in a grim continuation of the pattern of the last few years (see chart).

The broadcaster's problems stem from a swiftly changing television market that it has struggled to keep up with. The rise of multi-channel television (led by BSkyB, a satellite-television company controlled by Rupert Murdoch, and by Freeview, a free-to-air digital service whose set-top boxes have become one of the fastest-selling pieces of consumer electronics in British history), hurts mass broadcasters like ITV, as fans dribble away in search of channels that cater to their particular tastes.

But this alone should not be fatal, says Nick Bell, a media analyst at Bear Stearns, an investment bank. “As the market fragments, big advertisers find it harder and harder to reach people,” he says. “That means the premium for being a true mass-market broadcaster is going up.” Firms in America and Germany have been able to exploit this by raising advertising rates even as their audiences dwindle, helping to slow the decline in their revenues.



That option is not open to ITV. The firm is an amalgamation of Carlton and Granada, two big regional media companies that merged in 2003, and is far larger than Channels 4 and 5, its only commercial, free-to-air rivals. Worries over ITV's market power led Ofcom, the media regulator, to make Mr Allen agree not to raise advertising rates if audience share dropped—something he tried later to reverse.

Others say that the firm's problems are much simpler, and stem from Mr Allen's failure to commission good programming. Some blame ITV'S in-house production team, which comes up with many of its shows. And the BBC's relentless move on to ITV's traditional turf, light entertainment, has added taxpayer-funded competition to the firm's other worries.

In fairness to Mr Allen, his tenure has had triumphs as well as setbacks. He has managed to keep costs under control, and to extract his firm from some of its more burdensome regulatory requirements (for

example, he negotiated cuts in the amount of religious and children's programmes that ITV was supposed to provide).

That will give any new boss a reasonably firm base to build on as he attempts to restore ITV's fortunes. Mr Allen intends to stay until next January, but speculation about his replacement has already started. Among the possibles are Stephen Carter, a former Ofcom boss (although this may be too cosy even for the incestuous world of television); Dawn Airey of BSkyB; and Greg Dyke, spurned along with the private-equity bid and the man who, as boss of the BBC, parked its tanks on ITV's downmarket lawn.

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Internet strategy

The alliance against Google

Aug 10th 2006 | SAN FRANCISCO
From The Economist print edition

What today's internet firms can learn from 19th-century history

Get article background

PRINCE KLEMENS VON METTERNICH, foreign minister of the Austrian Empire during the Napoleonic era and its aftermath, would have no trouble recognising Google. To him, the world's most popular web-search engine would closely resemble the Napoleonic France that in his youth humiliated Austria and Europe's other powers. Its rivals—Yahoo!, the largest of the traditional web gateways, eBay, the biggest online auction and trading site, and Microsoft, a software empire that owns MSN, a struggling web portal—would look a lot like Russia, Prussia, and Austria. Metternich responded by forging an alliance among those three monarchies to create a “balance of power” against France. Google's enemies, he might say, ought now to do the same thing.

Google announced two new conquests on August 7th. It struck a deal with Viacom, an “old” media firm, under which it will syndicate video clips from Viacom brands such as MTV and Nickelodeon to other websites, and integrate advertisements into them. This makes Google the clear leader in the fledgling but promising market for web-video advertising. It also announced a deal with News Corporation, another media giant, under which it will provide all the search and text-advertising technology on News Corporation's websites, including MySpace, an enormously popular social-networking site.

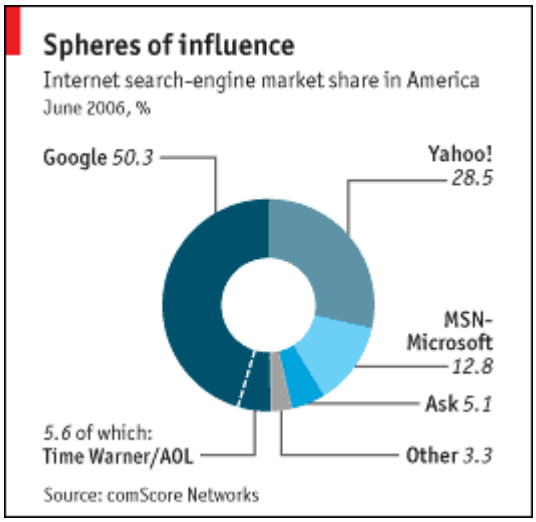
These are hard blows for Yahoo! and MSN, which had also been negotiating with News Corporation. Both firms have been losing market share in web search to Google over the past year—Google now has half the market. They have also fallen further behind in their advertising technologies and networks, so that both make less money than Google does from the same number of searches. Safa Rashtchy, an analyst at Piper Jaffray, a securities firm, estimates that for every advertising dollar that Google makes on a search query, Yahoo! makes only 60-70 cents. Last month Yahoo! said that a new advertising algorithm that it had designed to close the gap in profitability will be delayed, and its share price fell by 22%, its biggest-ever one-day drop.

MSN is further behind Google than Yahoo! in search, and its parent, Microsoft, faces an even more fundamental threat from the expansionist new power. Many of Google's new ventures beyond web search

enable users to do things free of charge through their web browsers that they now do using Microsoft software on their personal computers. Google offers a rudimentary but free online word processor and spreadsheet, for instance.

The smaller eBay, on the other hand, might in one sense claim Google as an ally. Google's search results send a lot of traffic to eBay's auction site, and eBay is one of the biggest advertisers on Google's network. But the relationship is imbalanced. An influential recent study from Berkeley's Haas School of Business estimated that about 12% of eBay's revenues come indirectly from Google, whereas Google gets only 3% of its revenues from eBay. Worst of all for eBay, Google is starting to undercut its core business. Sellers are setting up their own websites and buying text advertisements from Google, and buyers are using its search rather than eBay to connect with sellers directly. As a result, “eBay would be wise to strike a deep partnership with Yahoo! or Microsoft in order to regain a balance of power in the industry,” said the study's authors, Julien Decot and Steve Lee, sounding like diplomats at the Congress of Vienna in 1814.

The alliances are already being struck. Last year Yahoo! and Microsoft announced that they would connect their instant-messaging systems—both of which are much more popular than Google's alternative—and in July they said that they would extend this co-operation to “voice chat” (formerly known as “calling”). In May, Yahoo! and eBay struck an alliance in which eBay will use technology from Yahoo! to place advertisements on its auction site. On the other side of the bargain, Yahoo! will use PayPal, eBay's online payment mechanism, for transactions from Yahoo!'s pages. (Google recently launched a rival payment system of its own.)



The strongest alliance, of course, would be a merger or takeover. MSN and Yahoo! both wanted to buy some or all of AOL, a big, troubled internet-access company owned by Time Warner, a media conglomerate. But Google pre-empted its rivals last winter and bought a defensive stake in AOL. It still has its search and advertising technology stationed on AOL's site. Google may also make its instant-messaging service interoperable with AOL's, the most popular in the world.

Ally or annex?

With AOL lost to the enemy, what of a deal between Microsoft and either Yahoo! or eBay? Justin Post, an analyst at Merrill Lynch, said recently that Microsoft's “acquisition probability” is now so high that it may soon start pushing up the share prices of eBay and Yahoo! Mr Post thinks that Microsoft is most likely to bid for Yahoo! This would help Microsoft strategically, he says. Others are not sure. “I don't see it as a terribly good merger,” says Mr Rashtchy. There would be big cultural differences between a media company and a software firm. He thinks that a merger of Yahoo! and eBay, on the other hand, might make sense because both live mainly from serving online communities.

Paul Saffo, a Silicon Valley analyst and a fellow of the Institute for the Future, a research group, thinks that any merger between the three middle powers would be a “grand dramatic gesture” that would only hasten their decline. AOL's merger with Time Warner in 2000 is the relevant warning from recent history. Big mergers also run counter to a number of other trends on the internet today, which are collectively known as “Web 2.0”. “This is the age of mash-ups not mergers, open over closed,” says Mr Saffo, referring to the open internet standards that allow users to combine, or “mash” services.

Another argument against full-blown mergers is that the bigger and more self-absorbed the established powers become, the less likely they are to spot new insurgencies—start-ups such as YouTube, an online video site, for instance, or MySpace. Their equivalents in Prince Metternich's day were the nationalist and liberal movements that troubled the continental monarchies, and erupted in the revolutions of 1848—forcing Metternich to resign and flee into exile in Britain.

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About sponsorship

American magazines

Bono's capitalist tool

Aug 10th 2006 | NEW YORK
From The Economist print edition

Forbes and an Irish rocker get together

“I DO not intend to fire myself,” says Steve Forbes, chief executive of his family's media group, editor of its flagship business magazine and sometime presidential candidate. He dismisses talk that this week's sale of a 40% stake in the group to a private-equity firm which numbers Bono, a rock star, among its founders, is the latest stage in his family's liquidation of its assets in the face of financial difficulties. Recently the Forbes clan has sold its Fabergé eggs, the best of its Victorian art, some property and a private jet. On the contrary, insists Mr Forbes, the deal is to fund an ambitious growth strategy for the family firm.

AP

In the name of internal rate of return

Mr Forbes wants an injection of cash to develop Forbes Media's online operations. Elevation Partners is paying between $250m and $300m for its stake. Roger McNamee, another of Elevation's founders, seems to share his optimism. Mr McNamee says that the gloom in the print industry—at newspapers even more than magazines—is enormously overdone. *Forbes*, he says, has an authoritative voice and is trusted by its readers, not least because of its consistent enthusiasm for business ever since the “capitalist tool”, as it calls itself, was founded in 1917.

Elevation believes that the big opportunity may lie in the second phase of the commercial development of the internet. The first phase was all about aggregation, Mr McNamee says: the enthusiastic, indiscriminate pulling together of all sorts of things. This was a “difficult place” for print. Having an authoritative voice was undervalued then, but will be hugely valuable in “Web 2.0”, which will provide new ways to make money from well-written, accurate analysis of the business world.

But the purchase is certainly a gamble. Some people question the quality, in commercial terms, of the readers who are attracted to the *Forbes* website, which covers a wider range of subjects than the magazine. The website brings in money, but a robustly profitable business model is still work in progress. There are suggestions that Elevation may have overpaid. Private-equity firms are flush with cash and some may be desperate to spend it. Many others, such as Providence Equity Partners, have either invested in media businesses already or are planning to.

Condé Nast, publisher of dozens of magazines, including the *New Yorker* and *Vogue*, reportedly bid for

Forbes a while ago, but was put off by the price. Instead, it is to launch *Portfolio*, a business magazine of its own, next April. Insiders say that news of Condé Nast's new title persuaded Mr Forbes and Elevation to conclude their long courtship.

As for Bono, investing in a publication that celebrates capitalism and consumption may seem to sit awkwardly with his crusades against world poverty, including a trip to Africa with Paul O'Neill, America's treasury secretary at the time. Although he has not spoken publicly about Elevation's investment, he presumably agrees with Mr Forbes, who believes that entrepreneurship is the best way to tackle poverty (the archetypical hero of a *Forbes* story is someone who pulls himself up from nothing). His fellow members of U2, Bono once said, would rather he hung out with businessmen than with politicians.

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Hostile takeovers in Japan

Barbarians within the gate

Aug 10th 2006 | TOKYO
From The Economist print edition

A papermaker takes a bold step—but is outmanoeuvred by the sadly familiar

Get article background

IT WOULD, many hoped, be the shape of things to come. Yet in the week since it was formally made, Japan's first hostile takeover bid by one blue-chip company for another appears to have foundered, thanks to all-too-traditional shenanigans in the stockmarket. The companies' managers have done well: supine shareholders have been stiffed.

Japan's paper industry is beset by high prices for inputs, notably energy, and low prices for paper, which are kept down by foreign competition, chiefly from China. One wave of consolidation in recent years has already cut the number of papermakers, but competition and oversupply at home argue for another.

In early July Japan's biggest paper company, Oji Paper, founded in 1873, approached Hokuetsu Paper Mills, a medium-sized firm which has been around for almost as long, to propose a merger. Hokuetsu had said that it was planning to expand its plant in Niigata prefecture, on the western side of Honshu, Japan's main island. Oji saw a merger as a chance to cut the industry's oversupply by allowing it to scrap its older papermaking machines and use Hokuetsu's huge newer ones, which not only make paper but coat it, for things like tissue boxes. Oji had also noted Hokuetsu's weaknesses: Hokuetsu depends on fairly standard kinds of paper, whereas Oji has a broad range, from cardboard to speciality papers; it is still trying to recover from a damaging earthquake in 2004; and in the first quarter of this year its pre-tax profits fell alarmingly, by two-fifths compared with a year earlier.

But Hokuetsu's management would have none of it, and started looking around for help. On July 21st it said it would raise ¥30 billion ($255m) to expand its Niigata mill, with plans to issue new shares to Mitsubishi Corporation, a trading house. Mitsubishi, which already held a tiny stake, would become Hokuetsu's biggest shareholder, with 24% of the expanded capital. Hokuetsu also said it was thinking about poison-pill defences, and set up an “independent” panel to look into the matter. Getting no response to its friendly offer, Oji made Japanese corporate history by declaring that it would launch a ¥170 billion tender bid for majority control of Hokuetsu on August 2nd. It was the first time a firm had made a hostile grab for another member of the blue-chip Nikkei 225 stockmarket index.

Then, out of the blue on August 3rd, Japan's second-biggest papermaker, Nippon Paper, said that it too had acquired a stake in Hokuetsu, of 8.5%. The company denies colluding with Mitsubishi to block Oji's bid, which would be illegal. The two firms now own 33.29%. That will prevent a takeover in effect, but is still just shy of what would give them the one-third vote necessary to block resolutions—and so foster the impression of collusion. This week, Hokuetsu's independent panel, consisting of a Shinto priest and two auditors with former links to the papermaker, recommended the company adopt its poison pills, notably by issuing existing shareholders with warrants that would double the number of outstanding shares.

And that probably spells the end of the Oji bid, though the offer will stand until September 4th. The bid is particularly intriguing because the firm sought counsel not from one of the foreign investment banks in Tokyo, which are steeped in aggressive tactics, but from Nomura, Japan's largest securities house. For any securities firm to advise on hostile bids in Japan carries risks in a country where much value is supposedly put on relationships.

This week, another takeover battle seemed likely as Konaka, a retailer of men's suits, rejected a hostile attempt by Aoki, a larger rival, to buy Futata, another menswear chain, of which Konaka owns 20%. None of the three firms is a member of the Nikkei 225. Although scope for mergers remains in a country where many businesses are only half-restructured, Oji's experience is unlikely to embolden many other

big, blue-chip companies. For one thing, Hokuetsu's bosses have shown how easy it is to roll over shareholders. Whereas Oji is offering ¥800 for every Hokuetsu share, Mitsubishi was asked to pay only ¥607 for its stake, which diluted the holdings of existing investors. “We thought the time had come in Japan to use this kind of reform,” says Tomoo Edagawa, an executive at Oji, of his company's bid, “but shareholders are clearly still asleep.”

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Narcissistic bosses

The brand of me

Aug 10th 2006 | NEW YORK
From The Economist print edition

Is it bad for business when the boss is in love with himself?

“WHAT'S the difference between God and Larry Ellison?” asks an old software industry joke. Answer: God doesn't think he's Larry Ellison. The boss of Oracle is hardly alone among corporate chiefs in having a reputation for being rather keen on himself. Indeed, until the bubble burst and the public turned nasty at the start of the decade, the cult of the celebrity chief executive seemed to demand bossly narcissism, as evidence that a firm was being led by an all-conquering hero.

Narcissus met a nasty end, of course. And in recent years, boss-worship has come to be seen as bad for business. In his management bestseller, “Good to Great”, Jim Collins argued that the truly successful bosses were not the self-proclaimed stars who adorn the covers of *Forbes* and *Fortune*, but instead self-effacing, thoughtful, monkish sorts who lead by inspiring example.

A statistical answer may be at hand. For the first time, a new study, “It's All About Me”, to be presented next week at the annual gathering of the American Academy of Management, offers a systematic, empirical analysis of what effect narcissistic bosses have on the firms they run. The authors, Arijit Chatterjee and Donald Hambrick, of Pennsylvania State University, examined narcissism in the upper echelons of 105 firms in the computer and software industries.

To do this, they had to solve a practical problem: studies of narcissism have hitherto relied on surveying individuals personally, something for which few chief executives are likely to have time or inclination. So the authors devised an index of narcissism using six publicly available indicators obtainable without the co-operation of the boss. These are: the prominence of the boss's photo in the annual report; his prominence in company press releases; the length of his “Who's Who” entry; the frequency of his use of the first person singular in interviews; and the ratios of his cash and non-cash compensation to those of the firm's second-highest paid executive.

Narcissism naturally drives people to seek positions of power and influence, and because great self-esteem helps your professional advance, say the authors, chief executives will tend on average to be more narcissistic than the general population. How does that affect a firm? Messrs Chatterjee and Hambrick found that highly narcissistic bosses tended to make bigger changes in the use of important resources, such as research and development, or in spending and leverage; they carried out more and bigger mergers and acquisitions; and their results were both more extreme (more big wins or big losses) and more volatile than those of firms run by their humbler peers. For shareholders, that could be good or bad.

Although (oddly) the authors are keeping their narcissism ranking secret, they have revealed that Mr Ellison did not come top. Alas for him, that may be because the study limited itself to people who became the boss after 1991—well after he took the helm. In every respect Mr Ellison seems to be the classic narcissistic boss, claims Mr Chatterjee. There is life in the old joke yet.

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Business and government in Europe

Wrong turn

Aug 10th 2006 | PARIS
From The Economist print edition

The Italian government rejects a Spanish-Italian motorways merger

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GIANNI MION'S holiday started with an unwelcome surprise. On August 4th, just when the managing director of Edizione Holding, the Benetton family's holding company and the biggest shareholder in Autostrade, a toll-road operator, was about to leave for his summer break, the Italian government rejected the planned €14.3 billion ($18.3 billion) takeover of Autostrade by Abertis, a Spanish infrastructure business. The decision took Autostrade and Abertis by surprise: over the past weeks the firms felt confident that their plan to create the largest toll-road company in the world was on track.

Antonio di Pietro, the Italian minister for infrastructure, and Tommaso Padoa-Schioppa, the finance minister, did not speak to the two companies about their decision. Instead they wrote to the boss of the motorways regulator, pointing out that the 1997 privatisation law which relates to Autostrade stipulates that no construction company can become a shareholder. ACS, a Spanish construction company, is one of Abertis's main shareholders, and the merger would put 12.5% of the new company into its hands.

AP

The road to Italy

Autostrade argues that the clause of the privatisation law banning construction companies as shareholders has expired. This is debatable. A stronger argument against the government is that Ferrovial, a Spanish construction company, already runs Italian motorways, and the second-biggest toll-road operator (after Autostrade) is Gavio, an Italian construction firm. And ACS is in any case already indirectly a shareholder in Autostrade through its 13.3% stake in Schemaventotto, a holding company controlled by the Benettons, which in turn owns half of Autostrade.

So Mr di Pietro seems to lack a bullet-proof reason to block the merger, which he dislikes because it means foreigners taking control of an Italian asset which controls 3,400km (2,125 miles) of the country's roads. The new company would be called Abertis, based in Barcelona and led by a Spaniard. Mr di Pietro also notes that the deal offers hardly any synergies or economies of scale, as it would run motorways in two countries with no common border. The transaction's main beneficiary would be Schemaventotto. Under the merger agreement, Autostrade's shareholders will be paid a special dividend that will be worth about €650m to the Benettons.

Whatever the deal's merits, shareholders of both companies have approved it. Attempts to shut out foreigners are hurting the newish Italian government's image abroad. “They are sending the wrong signal at the wrong time,” says Carlo Stagnaro, of Istituto Bruno Leoni, a pro-market think-tank in Turin. Foreign investors will hesitate to invest in Italian business at a time when the country's economy is in need of capital from abroad.

Abertis and Autostrade have two options to try to save their merger. They could try to get ACS to sell out of Abertis. Or they could start a public-relations campaign to push Romano Prodi, the prime minister, to overrule his ministers. Help might also come from Brussels. The European Commission said on August 7th that it was looking at the Italian government's decision. The Spanish government, on the other hand, is hardly in a position to criticise the Italians for economic nationalism. Prodded by the government, Spain's energy regulator recently imposed 19 tough conditions on a bid by Germany's E.ON for Endesa,

Spain's electricity giant, to try to force the Germans to abandon their bid.

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Wireless broadband

Up in the air

Aug 10th 2006
From The Economist print edition

Sprint Nextel gambles on a 4G network

“THE Internet is going airborne,” says Ed Zander, the boss of Motorola, a large telecoms-equipment maker. On August 8th Sprint Nextel, the third-largest wireless operator in America, announced ambitious plans to build a new network, based on an infant technology that melds broadband-internet access with wireless communications at a low price.

The company aims to use the technology, called WiMax, to create a market for linking devices to the internet that today are unconnected—everything from digital cameras and music-players to sensors and household appliances. This will let people do things that are now technically difficult or prohibitively expensive, such as mobile video-conferencing or managing a building's lighting online. The new service will compete not only against mobile operators, but with telephone companies and cable firms that sell broadband. The choice of WiMax threatens the firms that dominate today's third-generation wireless market. It is an important victory for its chief backer, Intel.

Sprint Nextel plans to spend as much as $3 billion over the next two years in order to get the network functioning by 2008. The company's wireless licences cover 85% of America's top 100 cities, in coveted spectrum that gives it more bandwidth over longer distances than its rivals. WiMax delivers four times the amount of data at one-tenth of the cost of the technology now in use, says Sprint Nextel.

The choice of WiMax after years of testing other technologies is an important stamp of approval, says Mike Roberts, of Informa Telecoms & Media, a research firm, and will be watched by operators around the world as they upgrade to 4G wireless networks. It follows a $900m investment last month by Intel and Motorola in Clearwire, a wireless operator that uses WiMax.

But for Sprint Nextel, choosing WiMax constitutes a big gamble: the technology is still embryonic, and its success depends on the company's partners: Intel for chips, Motorola for equipment and Samsung for network infrastructure. And it is not certain that connecting the world's digital devices will be a viable market soon. “All that is possible—but is the consumer ready? I see it as a very slow development,” says Gerard Kleisterlee, chief executive of Royal Philips Electronics.

Sprint Nextel's plans mark a short-term defeat for Qualcomm, which sells a rival technology called Flash-OFDM. Strikingly, one reason why WiMax was chosen over Qualcomm's system was its open standards, which create an “eco-system” of rival firms innovating around the technology, as opposed to relying on the intellectual property of a single company.

Although WiMax exerts downward pressure on telecoms prices, operators say they have a strategy to cope. The boss of one international wireless firm says that his company wrote off the cost of its 3G licenses after the dotcom bubble burst, and can match the WiMax prices and speeds when the competitive threat materialises.

In the past, great promises were made for today's 3G systems, but turned out to be disappointing for operators and customers. Sprint Nextel's plans for WiMax thus are a test for the wireless industry to prove that it has its feet on the ground, rather than its head in the clouds.

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Management in China

Go east, my son

Aug 10th 2006 | HONG KONG, SHENZHEN AND SHANGHAI
From The Economist print edition

Jobs at Chinese companies are starting to appeal to foreign managers

LAST December Lenovo, China's biggest computer maker, pulled off a coup when it pinched Bill Amelio, the American head of Asia-Pacific for Dell Computer, to be its chief executive. In June Shanghai Automotive Industry Corp (SAIC), the mainland's largest car company, managed a similar trick: it appointed Phil Murtaugh, a General Motors veteran who until last year was boss of GM in China, as head of its international operations. And last week David Wei, the China president of B&Q, a British do-it-yourself chain, said he was defecting to Alibaba.com, a Chinese online business-trading site and the world's biggest. Mr Wei is ethnically Chinese, but spent a decade at multinationals abroad and in China.

Chinese companies are hiring more and more western and western-trained executives—and at an increasingly senior level. Ivo Hahn, the boss of Xecutive, a headhunting firm based in Hong Kong, has placed 20 such individuals with mainland firms in the last year, compared with none at all the year before. Diana Yang, at the Beijing office of Hewitt, a human-resources consultancy, says Chinese companies have become more aggressive at hiring expatriates for top jobs as well as for technical positions. “The Chinese have the will and the cash to attract western talent,” says James Harris, managing director for China at Hays Executive, Britain's biggest recruitment company.

What the Chinese gain is clear enough. China is short of middle managers, mainly because the Cultural Revolution denied education to a generation of the country's best talent. Foreign executives, or those with experience at foreign firms, can help Chinese companies crack overseas markets. At home, they bring technological skills and modern business practices, which help Chinese firms compete with multinationals and domestic rivals. Their presence also adds shine to a company's board of directors, and can lift its credibility with international investors, perhaps ahead of a stockmarket flotation.

Top managers at western companies, on the other hand, had few incentives until recently to jump ship. That they are starting to do so reflects two things. First, Chinese firms are becoming more respectable: some, such as CNOOC, Baosteel and Lenovo, are among their industries' global elite. Second, a growing number of foreign managers, many of whom have worked in China for years, are excited about the country's future and want to stay.

“You can take a Chinese company and build it into an international-class business,” says Mr Wei. Mr Murtaugh left GM China after the top brass in Detroit moved his immediate boss, the head of Asia-Pacific, to Shanghai, too close for comfort. Ironically, Mr Murtaugh may have more freedom at SAIC, which is owned by the government, than he ever did at private-sector GM. He is SAIC's representative on the board of Ssangyong Motor, and is charged with turning around the loss-making South Korean group. Because of his experience, he is likely to take the lead in developing SAIC's first export models. Robert Gonzales, another western recruit to Lenovo, where he is head of human resources, chose to jump from IBM when the Chinese firm bought the American group's computer division last year. “Working with the Chinese is the most fascinating job I've ever done,” he says.

Meanwhile, mainland firms are becoming more comfortable places to work as the English language spreads, other foreigners join and the culture becomes more cosmopolitan. It also helps that western-trained executives can name their price. Recruits can expect anything from a 20% premium to double their current package. Salaries of 6m yuan ($750,000) are possible, with expatriate benefits on top. Headhunters report that since Chinese companies are not used to benchmarking, managers who drive a hard bargain can strike extremely lucrative deals.

Still, for most foreign executives, a Chinese firm remains too risky. For many, cultural differences—murky business practices, pollution, language difficulties and, sometimes, poor job security—rule out anything

beyond a short posting. Recruiting a westerner therefore remains an uphill battle, says Mr Hahn, especially for Chinese firms from second- or third-tier cities, where life can be harsh.

And despite their appetite for western expertise, local firms have reservations too. They worry that *waiguoren*, meaning outsiders, will upset their corporate culture, be too direct, or even—heaven forbid—contradict the chairman. Richly paid foreigners can also cause jealousy among locals. Alibaba, which has 30 expatriates in Hangzhou, has made disclosing one's salary a sackable offence, says its head of human resources, Jin Jianhang.

Given that, a lot of Chinese companies still prefer hiring Chinese managers with Western experience rather than foreigners, especially since many *hai gui* (Chinese returnees) are now coming home from overseas and are willing to try their luck at mainland companies, not just multinationals. But foreign executives are becoming increasingly comfortable in China. And that means competition for jobs at mainland companies could soon start to heat up.

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Face value

The wired man of Bangalore

Aug 10th 2006
From The Economist print edition

In his latest innovation, N.R. Narayana Murthy, founder of Infosys, retires this month

AP

UNLIKE old soldiers, Indian tycoons rarely fade away. They stay around, beady eyes on their sons messing up their legacies. Yet on his 60th birthday on August 20th, N.R. Narayana Murthy will stand down as executive chairman of Infosys, the Indian information-technology star he co-founded in 1981. To step back at all so young and fit is a novelty. To do so in favour of younger professional colleagues rather than his own offspring is odder still. But the firm Mr Murthy has built seeks to follow not Indian tradition but the best of international practice. He has shown, as Nandan Nilekani, Infosys's chief executive, puts it, that business should be run to serve customers in America and Europe, and "not in the corridors of power in Delhi."

In truth, Infosys's top management will not look so very different on August 21st. Mr Murthy resigned as chief executive four years ago, and will stay on as both non-executive chairman and as "chief mentor"—ie, personal business trainer to a handful of his colleagues. He expects to be in the office about one day a month. But it is important that he be seen to retire. Infosys has sought to break with India's corporate past by being open, fair, meritocratic and rule-based. The retirement age is 60, in a company where the average age of the 58,000 employees is just 26.

Mr Murthy is not going quietly. His departure comes in Infosys's silver-jubilee year, an event marked with what its rivals snidely—and enviously—call a typical flair for self-promotion. There was a big bash at Infosys's spectacular new campus outside Mysore, some three hours' drive from its Bangalore headquarters. There, in a televised extravaganza, Infosys became the first company outside America to open the trading day on the NASDAQ stock exchange by remotely "ringing the bell".

Whipped up by two American cheerleaders, 3,000 "Infoscions" chanted "Infy, Infy" as if the company were playing its rival, Wipro, on the football field used for the ceremony. Wearing blue Infosys T-shirts, Mr Murthy and his senior colleagues looked rather ill at ease on the podium, alongside Bob Greifeld, NASDAQ's president, and other dignitaries. But, advised not to turn around, lest they display their backsides to the world, these unassuming, phenomenally wealthy and frighteningly clever men managed to keep smiling, clapping and waving at an unseen audience in Times Square, New York. The pictures were picked up by a number of American television channels.

Indulging in such hoop-la is all part of playing in the global leagues Infosys has joined. In 1999, it was the first Indian company to list on NASDAQ—a “small step for NASDAQ, a giant leap for Infosys and Indian software”, as Mr Murthy likes to say. It brought “submission to the discipline of an international financial framework”, he says, and a certain brand awareness among potential customers, who are mainly American firms outsourcing some of their IT needs. Infosys, however, was also a prize catch for NASDAQ: “the epitome”, says Mr Greifeld, “of what we want a NASDAQ-listed company to be.”

Of India's big three IT firms, Infosys is the only genuinely entrepreneurial start-up. The biggest, Tata Consultancy Services, is a subsidiary of India's largest conglomerate. Wipro is a second-generation firm that moved on from hardware. Mr Murthy founded Infosys with six friends. He recalls a long meeting in the bedroom of his apartment in Mumbai, where they hammered out a kind of mission statement. This was not, he says, to be the best, the biggest or the most profitable, but to “earn the respect of all our stakeholders”. Do the right thing and do the job well, says Mr Murthy, and the rest would follow.

Profit with honour

It did. Over the next 23 years, Infosys became a billion-dollar company. In the financial year that ended this March, its revenues passed $2 billion, and it earned after-tax profits of $555m. Part of Mr Murthy's philosophy of “respect” is that profit margins are “sacrosanct”. In 1995, this led to a brave decision, when Infosys rejected the terms demanded by General Electric, and lost the business of its biggest client, which at the time accounted for a quarter of revenues and 8% of profits. But Infosys continued to thrive.

Many analysts suspect that the industry's extraordinary pace of expansion will squeeze Indian IT's fat margins. Foreign firms such as IBM, Microsoft and SAP are pouring money into their Indian ventures. There are doubts about whether India can meet the demand for English-speaking technically qualified engineers, and wage pressures are mounting. But Mr Murthy does not see this as a big threat to the firm's future. Infosys, he says, is at the top of the tree. It attracts 1.4m job applicants a year. Wages make up just 14% of its costs, so even an annual increase of 15%, say, would reduce margins by only 2.1 percentage points, which can be matched by productivity improvements.

His biggest worry is one shared by the rest of Indian industry—shoddy infrastructure, from roads to airports. One reason why IT firms have flourished without relying on the government is that they have built much of the infrastructure they need themselves. But they cannot forever thrive as little oases in an infrastructural desert. Mr Murthy and his peers are bequeathing India, in places like the Mysore campus, 21st-century IT palaces as impressive as any in the world. But they do need the government's help to make them accessible.

Mr Murthy is not going into obscurity. The local state government, once at odds with him, is now eager to use his services. And he is already linked to a dozen or so universities and business schools around the world, as a trustee, board member or adviser. With characteristic humility, Mr Murthy describes himself as his family's only “black sheep”, because he did not follow tradition and become a teacher. Now, he says, he at last has a chance to look respectable.

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National oil companies

Oil's dark secret

Aug 10th 2006 | CARACAS AND LONDON
From The Economist print edition

Most of the world's oil reserves are in the hands of state-run companies, many of which are run badly

AP

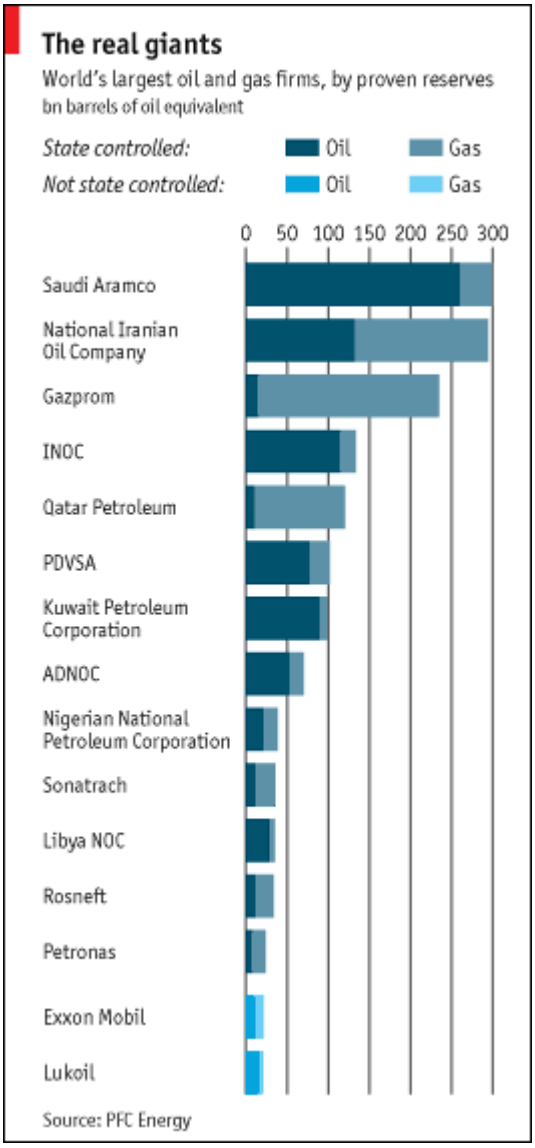
EXXON MOBIL is the world's most valuable listed company, with a market capitalisation of $412 billion. But if you compare oil companies by how much they have left in the ground, the American giant ranks a lowly fourteenth. All 13 of the oil firms that outshadow it are national oil companies (NOCs): partially or wholly state-owned firms through which governments retain the profits from oil production. Because these national champions control as much as 90% of the world's oil and gas, they can do far more than the likes of Exxon to assuage the current worries about supply and to influence the accompanying record prices. But like most state-owned firms, they are prone to over-staffing, underinvestment, political interference and corruption.

Petróleos de Venezuela (PDVSA), one of the biggest (see chart), provides a cautionary tale of how bad they can be. Venezuela has exported oil since the 16th century, when the mother of the Hapsburg emperor, Charles V, had some shipped to Spain to treat his crippling gout. Big multinationals, such as Royal Dutch Shell, set up shop in Venezuela almost a century ago. By the 1930s the country was the world's second-biggest oil producer. Today it remains one of the main sources of American oil imports. There is also huge potential to expand production: if you include its near-endless supply of treacly “ultra-heavy” oil, Venezuela has the world's biggest reserves.

Like many developing countries, Venezuela nationalised its oil industry in the 1970s. But its politicians were mindful of the extravagant mess that Pemex, Latin America's biggest NOC at the time, had made of Mexico's oilfields since the 1930s. So the Venezuelans devised a structure to minimise the disruption. Former foreign concessions became free-standing divisions of PDVSA, with many of their existing managers left in place.

From these sensible beginnings, PDVSA developed a reputation for professionalism and competence, matched by few other NOCs. The company was thought to be relatively free from the corruption and cronyism that had spread through Venezuela, fuelled by oil wealth. It was certainly efficient, producing as much oil as Pemex did with a third of the staff.

In the 1990s the Venezuelan oil company embarked on a scheme to raise output to 6.5m barrels per day (b/d). This would be done by increasing its own production and farming out marginal fields to foreign firms. The idea, says Luis Giusti, who ran PDVSA from 1994 to 1999, was to make use of multinationals' technology and capital without surrendering the most lucrative opportunities to them.



By 1998 some 36 foreign firms had set up shop and were rapidly expanding their output. PDVSA, meanwhile, had already reached 2.9m b/d and was seeking the government's blessing to invest more to increase its production capacity. But royalties were falling along with the oil price. With an election looming, the government slashed the company's investment budget instead. Output promptly started to fall and has never recovered.

Partly because of geology and partly because of their age, Venezuela's fields require a lot of maintenance. The oil they produce is more viscous and acidic than the norm, and so harder to handle. Less than a tenth of the fields simply spout oil thanks to the natural pressure of the reservoir. Keeping the remainder flowing requires constant injections of water or gas. Even so, their output declines at roughly twice the pace of oilfields in the North Sea. Venezuela has to add 400,000 b/d of new annual production capacity just to keep output stable, according to Mazhar al-Shereidah, an academic.

That is even more expensive than it sounds, because each well produces only a small amount: perhaps 180 b/d, compared with as much as 7,000 b/d from some Persian Gulf wells. It takes Venezuela ten times more wells than Saudi Arabia to produce a third of the oil. No wonder that at the height of its expansion in 1997, PDVSA was investing $5.4 billion, according to Wood Mackenzie, a consultancy.

But when President Hugo Chávez came to power in 1999, he started squeezing even more money out of the firm. By 2000 investment had fallen to $2.5 billion. Mr Chávez accused PDVSA of hiding its profits from the government through deceptive accounting. He also questioned the firm's expansion plans and overseas acquisitions. Above all, he decried its relative autonomy and appointed a number of hostile bosses to impose his authority.

PDVSA's management, naturally, resented this. They joined a general strike in December 2002, along with half of the firm's 40,000 employees. Most of the skilled staff, including engineers and technicians, stopped work for two months. Since—like patients in intensive care—many of PDVSA's wells require constant monitoring and treatment, says Mr al-Shereidah, the strike killed lots of them. Analysts estimated that Venezuela lost as much as 400,000 b/d of production capacity for ever, not to mention billions of dollars in revenue.

Sacking the lot

But the worst was still to come. Mr Chávez denounced the strikers as saboteurs and sacked them all. The toll was highest among skilled workers: two-thirds of managers and technical staff went. At a stroke, PDVSA lost almost all of its most experienced and best-qualified employees, with an irreplaceable understanding of the idiosyncrasies of its wells and fields.

Critics say that the government restaffed the firm with incompetent cronies and placemen. Contractors whisper that it is having trouble spending even its reduced investment budget. Bids take months longer than necessary to complete, one contractor complains, because the procurement staff cannot get their technical specifications straight. Others point to an increase in fatal accidents and fires at PDVSA's refineries as proof that its workers are no longer up to snuff.

Staffing has certainly become more political. Mr Chávez's cousin, Asdrubal, runs the firm's shipping arm.

The president's brother, Adan, helps to co-ordinate the company's subsidised oil sales around the Caribbean as ambassador to Cuba. Those who signed a petition advocating a recall election for Mr Chávez complain that they cannot get jobs at PDVSA or its contractors.

Politics has begun to intrude into the firm's strategy, too. Mr Chávez wants PDVSA to do less business in the United States and more in Latin America. In the name of regional integration, he is pushing for an expensive natural-gas pipeline from Venezuela to Brazil, which would “bring gas that does not exist to markets that do not exist”, in Mr Giusti's view. In theory, the *hugoducto*, as the pipeline is sarcastically known, will be a money-making venture, but Mr Chávez has also dragooned the company into all manner of charitable works. He insists that the firm spend a tenth of its investment budget on social programmes, and has pledged its help, in the form both of cheap oil and technological assistance, to allies from Argentina to the Bahamas.

Clearly, Venezuela's oil company no longer operates at arm's length from the government. Its head, Rafael Ramírez, is also the Minister of Energy and Oil. “The president tells PDVSA to commit suicide, and he says, ‘Yes sir!'” gripes Elie Habalian, a former Venezuelan representative at OPEC, with a mock salute.

The company is also becoming more secretive. It has de-registered its refining subsidiary, Citgo, at America's Securities and Exchange Commission, and so no longer files any public reports to the organisation. In Venezuela, the Ministry of Energy and Oil has only just released the 2003 edition of its annual statistical compendium on the company's performance. Its finances are certainly getting murkier: it now transfers much of its earnings directly to a development fund controlled by Mr Chávez, rather than sending them all to the central bank as it used to.

Despite these worrying trends, the government claims that PDVSA has fully recovered from the strike and sackings, and is now producing more than it did beforehand. Officially, it is still planning to raise output to almost 4m b/d by 2012. But observers scoff at such notions. The company can no longer maintain its own fields, let alone complete the many new projects it is pursuing, says Diego González, who used to work for its gas division. Wood Mackenzie estimates that output slumped to less than 1.2m b/d in 2003. It subsequently recovered a bit, to 1.6m b/d, but is now falling again.

These failings have not stopped Mr Chávez from forcing most foreign oil firms in Venezuela to go into partnership with its national champion. It is now running the resulting joint ventures—presumably no better than it runs its original fields. Other countries go further: Saudi Aramco, for one, has a monopoly on oil production in Saudi Arabia. PFC Energy, a consultancy, calculates that 77% of the world's oil and gas is found in countries whose production is controlled by state-owned oil firms and their partners.

No entry

The NOCs will gradually become even more dominant as oil production dwindles in areas which are open to all comers, such as the North Sea and the Gulf of Mexico. New oil is most likely to be found in the NOCs' territory, precisely because it is largely out of bounds to multinationals such as Exxon and BP, and so has not yet been thoroughly raked over. In the future, therefore, oil production will be even more concentrated in the hands of the national firms of Russia and the Persian Gulf.

Happily, not all NOCs are as badly run as PDVSA. But their problems are similar, if not as severe. Many suffer from government meddling of one sort or another. Legal requirements to hire a certain number of locals have left the state firms of several Persian Gulf emirates hopelessly over-staffed. Russia uses its NOCs, Gazprom and Rosneft, as instruments of foreign policy. The governments of China and India, among others, oblige their state firms to sell petrol below the international price at the pump, even though they have to buy much of it on the open market. Bolivia, meanwhile, cannot decide whether it wants an NOC at all. It has opened its oil industry to foreign investment and then nationalised it no fewer than three times.

A lack of openness is common. Saudi Aramco has not released enough data to quash a theory that its oil reserves are not nearly as large as it contends, and that its output may have peaked. Earlier this year a report in *Petroleum Intelligence Weekly* suggested that Kuwait's state-run Kuwait Petroleum Corporation (KPC) was not providing a full picture of how much oil it had. Even members of Kuwait's parliament complain that they do not know the true level of the country's reserves.

Underinvestment is the most widespread problem of all. Indonesia has become a net importer of oil, despite big reserves, thanks to the failure of state-run Pertamina to develop new fields. The fact that

NOCs are sitting on the vast majority of the world's oil but pumping only about half of global output suggests a systematic failure to invest. Any government that relies on oil in general, and a state-run oil firm in particular, for the majority of its income, is likely to skimp on investment when the oil price falls, because it is more politically palatable to slash drilling programmes and seismic surveys than civil servants' salaries and hospital budgets.

Failed ambitions

For all these reasons, nationalisation has failed to live up to expectations almost everywhere. Iran, which has more oil and gas than all other countries save Saudi Arabia and Russia, pumps less today than it did in 1979, when the new Islamic government threw foreigners out. The current expansion of Russia's NOCs is proving equally ill fated: costs have risen and output has grown more slowly at Yuganskneftegaz, the former production arm of Yukos, a Russian oil company, since its takeover by state-controlled Rosneft, according to Andrei Illarionov, a former adviser to the Russian government. Over the past 20 years, he points out, income per head has grown in countries with private oil industries, but has shrunk in those with nationalised ones.

Saad Rahim, of PFC Energy, argues that weak institutions lie at the root of this disappointing performance. Most countries with national firms used their oil wealth to develop the authority of the state, rather than the other way around. So NOCs sprang up before their countries had institutions strong enough to regulate them, or to manage the money they generate—a recipe for inefficiency and corruption.

These feeble governments, in turn, look to NOCs to perform tasks that would normally fall to the bureaucracy. Many oil-rich states rely on them to bankroll their budgets, rather than bothering to collect any tax. They also depend on them to do a lot of the spending: hence the tendency to draft state oil firms into distributing subsidies and providing social services. In the worst cases interference becomes a surrogate for economic growth, as governments demand they build uneconomic facilities and hire unneeded workers.

No wonder then that Statoil, Norway's NOC, is generally thought to be the best of the lot. Norway, after all, was a rich, efficiently administered country long before Statoil produced its first drop of oil. It had plenty of educated citizens to help staff and regulate the company, a free press, well-funded police and impartial courts to guard against corruption. Norway also had demanding voters to limit waste and inefficiency. Similarly, the state-run oil firms of Malaysia and Brazil, which had relatively strong governments and diversified economies before they found oil, do better than most.

But institutions are not everything. After all, points out Valérie Marcel, author of a comparative study of five NOCs, Saudi Aramco has prospered since its nationalisation, despite the many failings of the Saudi government. In part, she argues, that is because it was taken over gradually and amicably. Saudi Arabia bought the company from its foreign owners over the course of seven years, helping to preserve institutional memory and an efficient corporate culture. It still keeps a few foreigners on the board. By contrast, Sonatrach took over foreign oil firms' assets in Algeria much more abruptly and acrimoniously, following a long and bitterly fought war of independence.

Moreover, Saudi Arabia has remained remarkably stable since nationalisation. The crown has changed hands only twice in the past 30 years; the same is true of the oil ministry. Political stability, in turn, has led to consistent policymaking. The government of Saudi Arabia has stuck to the same broad strategy for decades. It wants Aramco to maintain its position as the world's biggest producer and to use the resulting pricing power to ensure that the oil price stays high enough to keep the country solvent—but not so high as to turn consumers off oil altogether. That guidance has allowed Aramco to draw up long-term investment plans and to raise the capital to implement them.

But clear strategic guidance, Miss Marcel argues, goes hand-in-hand with operational autonomy at the best NOCs. The Saudi government, for example, lets Aramco set its own prices, unlike Kuwait's, which hands them down to KPC from on high. Whereas Mr Chávez dictates where PDVSA should lay its pipelines, and who its customers should be, Aramco's managers make such decisions for themselves. Critically, Aramco is able to retain a portion of its earnings for maintenance and expansion, rather than subsisting on an allocation from the national budget, as Iran's state-run oil firm did until recently.

Competition also helps. The governments of Brazil and Malaysia, among others, allow other firms to bid against their respective NOCs, Petróleo Brasileiro (Petrobras) and Petroliam Nasional (Petronas), for

exploration and production rights. Since the two have better knowledge of local conditions and geology, they can still hold their own against multinationals. But the competition forces them to keep costs down and methods up to date. The presence of multinationals also helps to develop a country's pool of skilled labour and, when they operate in joint ventures, to disseminate new technology and ideas.

Brazil and Malaysia are also among the countries that have tried to raise their NOCs' game by encouraging them to expand overseas, in places where they enjoy no special privileges. Much of Petrobras's oil comes from fields off Brazil's Atlantic coast. It has taken advantage of this expertise in offshore exploration and production to win contracts to develop deep-water fields in countries like Angola and Nigeria. Although KPC's upstream division enjoys a monopoly over oil production in Kuwait, its retailing arm, Q8, competes with multinational rivals in Europe. That not only allows KPC to extract more profit from its oil, but also provides it with useful intelligence for its dealings with other distributors.

One factor that does not seem to be a prerequisite to success for a national oil company is having a lot of oil. Petrobras, for one, began life as a refiner and distributor. It used its profits from those businesses to fund new ventures in exploration and production. Abundant, inalienable oil, on the other hand, seems to do most state-run firms more harm than good.

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American interest rates

Missing a wingbeat

Aug 10th 2006
From The Economist print edition

Is the great monetary migration finally over? And will the landing be soft?

JEFFREY LACKER has held a vote on the rate-setting committee of America's Federal Reserve for less than a year. But on August 8th he did something no committee member has done since June 2003: he voted against the chairman, Ben Bernanke. Mr Lacker, head of the Richmond Fed, thought his fellow central bankers should raise interest rates for the 18th time in a row. Instead, they decided to pause in their long migration back to a temperate monetary policy, holding the federal funds rate at 5.25%.

This split decision was accompanied by a statement that might most charitably be described as “deliberative”. The Fed admitted core inflation was high (2.4% in the year to June, according to its preferred measure); it probably won't remain so, but if it does the Fed will start tightening again, falling in behind the man from Richmond.

The Fed has long relied on three things to keep price pressures in check: quiescent labour markets, fat profit margins and its own credibility. It remains sure of the last, but can no longer count on the first two.

For most of this recovery, for example, workers have been industrious without becoming avaricious. They have justified higher pay per hour by producing more stuff per hour, so that unit labour costs have risen only gradually. In many of its previous statements, the Fed gave thanks for these “ongoing productivity gains”.

That phrase did not appear in this week's statement, however, because the gains did not appear in this week's figures. Productivity grew at an annual pace of just 1.1% in the second quarter, not nearly enough to offset a recent acceleration in pay. As a result, unit labour costs rose by a worrying 4.2% (see chart). For all the fuss about oil, labour is the commodity with the biggest impact on inflation, accounting for two-thirds of production costs.

The Fed hopes that companies will be slow to pass these higher labour costs on to consumers. Their profit margins are, after all, unusually wide at the moment. But labour compensation is now growing almost as quickly as nominal GDP, suggesting that workers, having accepted a surprisingly small share of the national cake in recent years, are getting hungrier.

In his congressional testimony last month, Mr Bernanke gave warning of the dangers of an “inflationary psychology”. If people suspect that faster inflation is here to stay, they will anticipate it in their wage claims and their price-setting, thus confirming their own suspicions. Are the fatter pay packets of the first six months of this year evidence of such a psychology?

Mr Bernanke clearly thinks not. His willingness to hold rates, even when one of his colleagues thought he should raise them, shows his confidence in his own credibility—he does not feel the need to prove his inflation-fighting mettle to his doubters. Indeed, for all the chatter about “Helicopter Ben”—a man willing to throw money from the skies to keep prices from falling—the broader public seems to trust him. According to the University of Michigan's July survey, America's consumers expect the prices they pay to rise by 3.2% over the next 12 months. This is smaller than the rise they expected in May or June, and smaller than the actual increase (4.3% in headline consumer prices) they experienced in the 12 months to June.

Mr Lacker clearly thinks the Fed should do more to make this relatively happy forecast come true. But Mr Bernanke thinks that the central bank may have already done enough. The slowdown in growth evident last quarter was not an accident. It was due in part to the rate increases that the Fed voted for many meetings ago.

The Fed's latest projections, unveiled last month, foresee growth of 3.25-3.5% this year and 3-3.25% next, slow enough, it thinks, to stop core inflation rising much further. Unfortunately, the American economy, though it flies with strong wings, is not very good at smooth landings. In the space of 12 months from February 1994, Mr Bernanke's predecessor raised rates from 3.25% to 6% in a successful effort to stabilise inflation without increasing unemployment. In 2000, he tried the same trick, raising rates from 5.75% to 6.5%. By March of the following year, the economy was in a recession few had expected.

Mr Lacker, an inflation hawk, was the first to break formation with the new Fed chairman. But in the difficult months to come, he may find some doves peeling off in the opposite direction.

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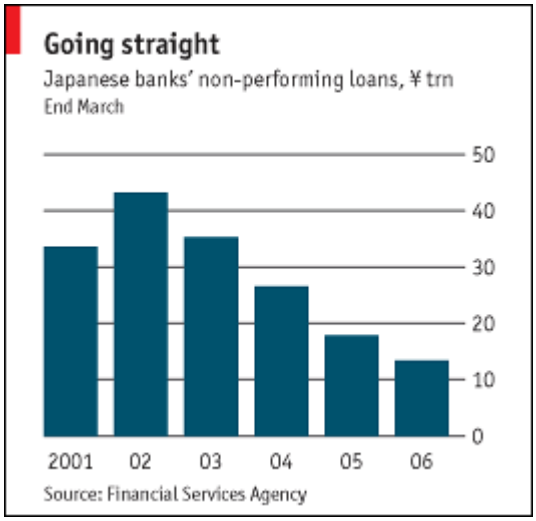
Japanese banking

And then there were three

Aug 10th 2006 | TOKYO
From The Economist print edition

Japan's top banks try to act normally



TEN YEARS ago, Japan had 14 big commercial banks. Now, after a financial crisis and the popping of all sorts of asset bubbles, it has three. Along the way, some have collapsed, brought down by bad loans made in the late 1980s, when property and stockmarket frenzies were at their height. Others have been absorbed in a string of mergers. But this has been no beauty parade, in which only the loveliest remain to claim the grand prizes. Those that survive remain ungainly and are not profitable enough. Only now are they devising strategies to equip themselves for an economy on the mend.

By any standards, the final three are large. MUFG, created through a merger between Bank of Tokyo-Mitsubishi and UFJ this year, is considered one of the world's biggest banks by assets, if not the biggest; Mizuho, created in a merger of Industrial Bank of Japan, Dai-Ichi Kangyo Bank and Fuji Bank, and SMBC, born when Sumitomo Bank merged with Mitsui Bank, are also global megabanks. Each made record profits in the year to March 31st, though all of the banks, it must be said, benefited from one-off factors. A rise in long-term interest rates during the first three months of their financial year produced paper losses in their bond portfolios, which led to less-than-stellar first-quarter results. But the banking industry's non-performing loans have fallen dramatically (see chart). Bad-loan ratios, once as high as 7% of all loans, have fallen to around 1-2%.

At last, the banks' managers are able to look beyond survival towards new ways of making money. They are starting with an honest appraisal of past errors. “Our role used to be shifting money from individuals with high savings rates, through deposits, to businesses that were looking for money to grow,” says Nobuyuki Hirano, managing director at MUFG. “These days big companies have become cash-rich, and can pay for fresh capital outlays from their own pocket.” Rather than just lending to an elite coterie of companies at the pinnacle of the Japanese economy, the banks are starting to diversify their businesses. That means they are all fighting over growth areas: in lending to small and medium-sized enterprises, individual borrowing, the sale of investment trusts and mortgages, and international banking. For borrowers, the benefits may already be showing: figures released by the Bank of Japan on August 8th showed bank credit growing at its fastest pace in over a decade in July.

The backdrop is also encouraging the banks to behave in a more “normal” fashion—ie, more like their peers elsewhere in the world. The Bank of Japan has started to raise interest rates. There are proposals to reduce the interest-rate advantages consumer-finance companies have over banks (see article). The banks are repaying public money offered to them at the peak of the crisis. In June, MUFG became the first to repay all its public debt; Mizuho followed the next month; SMBC is planning to pay back all its loans by the end of the year. This enables them to start counting profits as capital. Their returns on assets, however, remain about half those of the leaders in the global banking industry. So how they spend their new-found wealth is crucial.

All are seeking to increase lending to small and medium-sized companies, but Hironari Nozaki, a banking analyst at Nikko Citigroup, says SMBC has been the most aggressive. The bank says it has cut personnel costs by automating the way some borrowers apply for a loan, and offering a form of self-certification to borrowers. So far, the default rate is only about 1.5%. Meanwhile, Mizuho leads the local market in syndicated loans to companies, of which it claims to control about 40%.

The three say they are also weighing their overseas strategies carefully. Mindful of the problems caused when the banks went on a shopping spree abroad in the 1980s, they are seeking to concentrate only on niches in which they are strong.

Thus MUFG is one of the top-ranked banks globally in project finance. Mizuho Corporate, the investment-banking division of Mizuho, says it has focused in Britain on arranging debts for management buy-outs. Tsunehiro Nakayama, deputy president of Mizuho Corporate, says that though the bank is expanding business abroad, it is doing so in a different way: in the past, it had an international unit; now each division within the bank is responsible for both domestic and overseas business. “We're trying to make the engine of our business stronger, but we're also making sure that the brakes are just as strong,” Mr Nakayama says. “We've learned our lesson.”

This may relieve Hirofumi Gomi, the commissioner of the Financial Services Agency, which regulates the banks. He says the banks need to find risk models to go with their new business areas and find the right people to implement them. This may be difficult in an industry where the best minds have been focused on coping with decline rather than growth. But at least the banks say they are taking such advice seriously.

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Consumer lending in Japan

Shark-infested waters

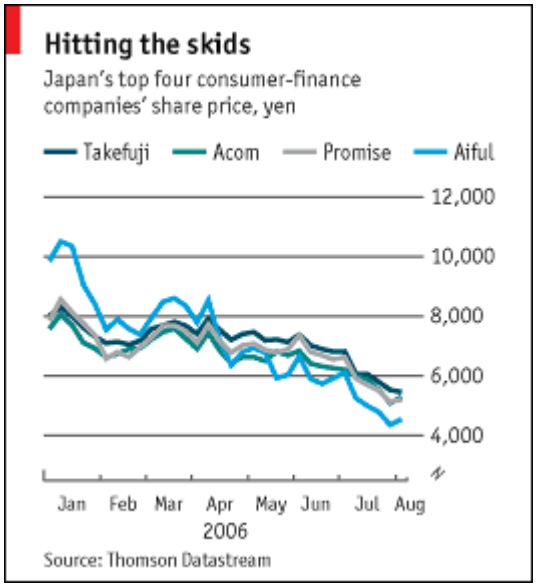
Aug 10th 2006 | TOKYO
From The Economist print edition

Controversial reforms may help Japan, even if they hurt lenders

AS A registered moneylender, Syouichi Kawamura has what, at first glance, looks like a cosy job. He spends his day cycling around bars and restaurants in the Ginza district of Tokyo, collecting money from his clients. The hard part is keeping tabs on their creditworthiness, and ensuring discretion—many borrowers do not want even their families to know how much they are in debt. Until recently, the easy part was the business logic; moneylenders have been able to charge borrowers as much as 29.2% while—this being Japan—paying little to fund their businesses.

With margins like these, it was hardly surprising that foreign financiers and hedge funds flocked into consumer lending in Japan at a speed notably faster than Mr Kawamura's wobbly bicycle. The country's top banks have also entered, through stakes in large consumer-loan companies. Though there are 13,700 small, registered lenders such as Mr Kawamura's, they account for just 2% of the ¥20 trillion ($174 billion) industry. Another 300 firms divide the rest of the pie. The biggest seven, including the consumer-finance arms of America's GE Capital and Citigroup, hold 70% between them.

From such big fish down to minnows like Mr Kawamura, there has therefore been general unease over proposed reforms that will be scrutinised by the government either this month or early next, and possibly voted on later this year. These are intended to put an end to confusion over how much interest lenders can legally charge. At present there are two caps, one at 15-20% and the other at 29.2%; most lending is at rates in the grey area in between. The reforms were triggered in part by a Supreme Court ruling in January against rates in excess of the 15-20% ceiling. This cost consumer-finance companies a lot of money. Shares of the top four have fallen by almost half since then (see chart).



But the complaints from Japanese lenders are nothing compared with those from their foreign-owned rivals. These companies say that lower rate caps would discourage lending to anyone but the most reliable borrowers, driving the rest towards loan sharks who charge truly exorbitant interest rates. That, some add, would provoke a credit crunch just as Japan's economy is getting back on its feet.

All of which the market regulator, the Financial Services Agency (FSA), takes with a pinch of salt. Both it and a subcommittee within the ruling Liberal Democratic Party (LDP) insist the system as it stands is unhealthy for borrowers. "We want a country where people don't overburden themselves with debts they cannot repay," says a senior FSA official.

As well as unifying the rate caps, the reforms bring in new measures to crack down on illegal loan sharks. They also tighten restrictions on borrowing from several creditors and stiffen the rules on licensing lenders. The LDP subcommittee disputes claims that lending will decline, hurting economic growth. Its research shows that many borrowers are simply rolling over loans, rather than borrowing for lavish spending sprees. Lower rates may encourage more sensible borrowing, even if they discourage reckless lending. Meanwhile, claims that 10m-15m borrowers would be forced to turn to loan sharks if they cannot borrow elsewhere are nonsense, FSA officials say.

Mr Kawamura is philosophical. Like others, he says he might have to shut his company down, but he plans to look elsewhere for business opportunities. Foreign firms are less relaxed. They say it makes more sense for Japanese authorities to amalgamate the three credit-history databases that banks, credit-card companies and consumer lenders hold, which is already a medium-term goal of the reforms, rather than lower the rate cap. Some foreign hedge funds threaten to quit Japan or curb their investment if the reforms pass.

But moneylenders have made handsome profits from Japanese consumers, and the FSA believes they have no reason to moan if the cap is tightened. If anyone wants to leave Japan, an FSA official says with uncharacteristic bluntness, “by all means get out.”

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European leveraged buy-outs

The call of the continent

Aug 10th 2006 | PARIS
From The Economist print edition

American private-equity funds are increasingly attracted to the old world

"EUROPE is behind Britain, which is behind America," says Johannes Huth, head of the European arm of Kohlberg Kravis Roberts (KKR), an American private-equity firm making inroads on the continent. Whereas buy-out groups consider America a maturing market, they regard the old world, especially continental Europe, as a land of promise. Its cushioned corporate ways are particularly irresistible: the more padding there is to remove, the greater the potential rewards.

That is why the pace of leveraged buy-outs in the region is accelerating. On August 6th Cinven, a European private-equity firm, said it was buying Avio, an Italian aerospace company, for €2.6 billion ($3.3 billion), making a packet for one of Avio's previous owners, Carlyle Group, an American buy-out firm. A few days earlier, KKR and others had bought four-fifths of the chipmaking business of Philips, a Dutch consumer-electronics company, for €3.4 billion after a hotly contested auction. In July KKR and the private-equity arm of Goldman Sachs paid €3.3 billion for Pages Jaunes, a French directories business. The same month, BC Partners, a European private-equity firm, spent an estimated €3 billion on the takeover of Brenntag, a German chemicals company.

"Activity levels are frenetic," says David Law, who runs the European private-equity department of Morgan Stanley, an investment bank. According to Mr Law, no European company with a market value of between €1 billion and €10 billion is safe from the industry's advances.

Thriving credit markets have helped buy-out firms raise plenty of debt to pay for acquisitions. In addition, several have recently raised large new funds from investors. This group includes KKR, which is flush with an extra $5 billion after a recent listing in Europe. On August 7th KKR and its partners in the Philips deal said they were planning to refinance the debt raised for that acquisition by selling €4.5 billion-worth of high-yield bonds, the biggest such issue yet seen in Europe.

However, the debt markets are beginning to discriminate. VNU, a Dutch business-information company bought by a private-equity consortium earlier this year, was forced to pay more on a bond deal finalised this month than bankers had expected. Some predict that rising interest rates will make fixed-rate paper increasingly unattractive for investors.

Sceptics are pointing out the pitfalls of the European market. "So far Europe has overpromised and underdelivered," says Ross Butler, editor of *Real Deals*, a trade magazine. The main problems are cultural attitudes, rigid labour laws and a government penchant for protection in the continent's largest economies. It is easiest to invest in Scandinavia or in the Benelux countries, because they are more similar to laissez-faire Britain or America, he says.

Europe is more complex than America, concedes Mr Huth. Markets are fragmented and the regulation of takeovers is different in each country. But companies in Europe are also considered to be more loosely managed than those in the Anglo-Saxon world, so opportunities to improve businesses—and to resell them at greater profit—are better. Germany especially seems to hold promise, even though politicians have, at times, raised a stink about private-equity firms.

Last year the number and value of leveraged buy-outs in Europe reached a record level, €117 billion. This year is shaping up to be even bigger. Not only is finance plentiful, but buy-out firms are prepared to collaborate on bigger deals. In America, some of them clubbed together recently in an attempt to pull off the biggest deal so far this decade: a $21 billion takeover of HCA, a hospital operator. Not all countries in Europe would welcome such a big acquisition. The Netherlands and Denmark might; but in France, Spain and Italy governments are keen to protect national champions—even outside "strategic" industries. But

given the ardour private-equity groups feel towards Europe, they are still likely to try.

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Insurance regulation in America

American exceptionalism

Aug 10th 2006
From The Economist print edition

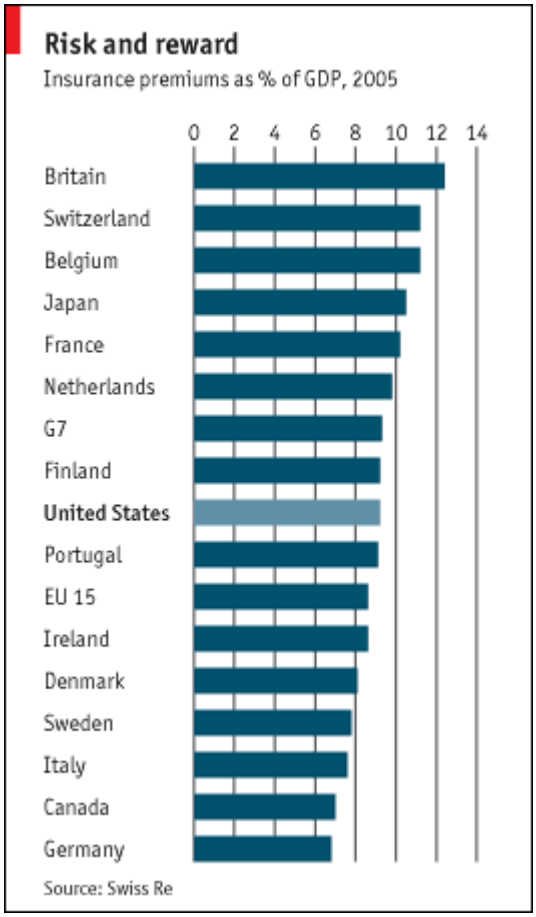
The world's biggest insurance market is too splintered

KANSAS CITY, Missouri, is known more for its historical role as a cattle town than as a financial hub. But it is to this midwestern city, America's 26th largest, that regulators and insurance executives from around the globe head when they want to make sense of the world's largest—and one of its weirdest—insurance markets.

For it is in Kansas City that the National Association of Insurance Commissioners (NAIC) is housed. It oversees a market accounting for one-third of premiums written worldwide. Outside Kansas City, the market becomes a regulatory free-for-all. Each of America's 50 states, plus the District of Colombia, governs its insurance industry in its own way.

In an increasingly global insurance market, America's state-based system is coming under strong pressure to reform. Insurance has changed dramatically since the NAIC was set up in 1871, with growing sophistication in underwriting and risk management. Premiums in America have ballooned to $1.1 trillion and market power is increasingly concentrated in the hands of big players (some of them foreign-owned) that are pushing for an overhaul of the state-based system. “It's an extremely expensive and Byzantine process,” says Bob Hartwig, an economist with the Insurance Information Institute, a research group.

Though a fiercely political issue, congressional support for simplifying the system is gaining ground. Both houses of Congress are looking at proposals to change the state-based system. Big insurers favour a version that would implement an optional federal charter allowing them to bypass the state-by-state regulatory process if they choose. A similar system already exists for banks.



Proponents of the changes see more efficiency, an ability to roll out products more quickly nationally and, ultimately, better offerings for consumers as a result. Yet some consumer groups favour state-based regulation. They believe it keeps premiums lower than they otherwise would be. Premiums as a percentage of gross output are lower in America than in several other countries (see chart).

The political headwinds are strong: insurance commissioners are elected officials in some states (California, for instance) and appointed by the governor in others. The industry is also split: most of the country's 4,500 insurers are small, and many of them have close ties with state-based regulators, whose survival they support. But even these forces may eventually be overcome.

Elsewhere in the industry in America, there are other calls for reform. In a backdoor form of protectionism, American reinsurance firms have long benefited from a regulation that requires foreign reinsurers writing cross-border business into America to post more collateral than they do. “If you operate outside the borders of the US, they don't trust you one inch,” laments Julian James, head of international business at Lloyd's of London, which writes 38% of its business in America.

The collateral requirement was established because of worries about regulatory standards abroad, and the financial strength of global reinsurers. Today regulatory standards have been tightened in many foreign markets. A majority of America's reinsurance cover now comes from firms based abroad, including many that have set up offshore in Bermuda (for tax reasons) primarily to serve America.

Pesky foreigners

So after years of hesitation, serious discussions about reform are under way. As a result of last year's devastating hurricanes, reinsurance capacity is tight. That has helped drive up primary insurance rates in places like Florida, which suffered heavy damage from the storms. Whether because of this or not, an NAIC task force is now considering a proposal to adopt a fairer rating system that would judge foreign and domestic reinsurers on the same measures, such as financial strength and strength of regulatory oversight in their home markets, to set collateral. The prospect of more streamlined regulation and recent moves toward reform in America's tort system (class-action suits can cost insurers millions) may make the market more attractive for foreign insurers.

Even under the existing rules, the size of the market has attracted foreign investment. Swiss Re recently purchased General Electric's reinsurance arm, and Britain's Aviva is in the process of buying AmerUs, an annuity business, despite selling its property-casualty business in America just five years ago. Philip Scott, who runs Aviva's international operations, says the rate of growth in America made the deal, which has not yet received regulatory approval, compelling. If any or all of the reforms finally go through, it is a safe bet that more foreign firms will follow in Aviva's footsteps—though they may skip the trip to Kansas City.

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Economics focus

Light and shade

Aug 10th 2006
From The Economist print edition

Two big clouds are hanging over India's shining prospects

LOOK at the big picture, and India's future seems assuredly bright. It has banished famine and cut absolute poverty by more than half. Economic growth is among the fastest of any country. Its newly confident businesses are spreading their wings. Having long been "hyphenated" with Pakistan as a dangerous trouble-spot, the country is now seen as half of an "India-China" pairing that is transforming the global economy. If this were a race, India, as the younger country, and a vibrant but stable democracy, would seem to many the better long-term bet.

Look at the detail, however, and you may despair at the depth and complexity of the problems India faces. For all its achievements, poverty remains entrenched. Some 260m people survive on less than one dollar a day. Nearly half of the country's children below the age of six are undernourished. More than half of its women are illiterate. Half its homes have no electricity, and in one state, Chhattisgarh, 82% are not even connected by road. Nor is there a huge pot of money to throw at these shortages. The government's average budget deficit, from 2000 to 2004, was exceeded only by that of Turkey. Even when it does spend money, the pipeline between government coffers and the intended beneficiaries is corroded by corruption, and cash seeps out.

As the World Bank notes in a new report*, this contradiction puzzles fresh observers in three ways. First, they find the rampant economic optimism hard to swallow: it seems to exaggerate changes in the fundamental shape of the Indian economy. Second, even though the economy is booming, the performance of the public sector seems to go from bad to worse. Third, India "is the best of the world, it is the worst of the world—and the gaps are growing." India's top technology colleges set global standards. Yet "many, if not most, children finish government primary schools incapable of simple arithmetic."

Out of this confusing array of contradictions, the report identifies the two most pressing needs for action by India's government: to make the public sector better at delivering basic services; and to sustain growth at high levels and extend its fruits to more people. From this simple but persuasive analysis come the two biggest dangers to India's future. Failure to reform public-sector services will render even high growth and farsighted policy ineffective in ending poverty; and, unless checked, growing inequality between regions, and between town and country, will heighten social tensions.

The shortcomings of the public sector are evident in almost all its functions. India, for example, has a government committed to providing all its people with health care. But there are only five countries in the world where a lower proportion of spending on health comes from the government—just 21% (compared with, for example, 45% in America). So even the poor are paying for private health care. A survey has also found that health care absorbs a bigger share (27%) of low-level "retail" bribery than any other government function. (This may shock some policemen.) Another found that between 1999 and 2003 the percentage of children fully immunised against childhood diseases had fallen from 52% to 45%.

Similarly, in many of India's towns, more than half the children are in private schools. A nationwide survey, based on unannounced visits to government schools, found that less than half the teachers on the payroll were there and teaching. Whereas, in many poor countries, city residents enjoy a 24-hour water supply, in many Indian cities the taps are dry for all but a few hours a day. The rich pay for pumps, bore-wells and storage tanks. The poor queue for hours at standpipes and water lorries.

The public sector tends to be worst at delivering services in India's poorest states. These are, in relative

terms, becoming poorer, not because their growth is declining, but because they have failed to match the acceleration achieved since 1991 by India's richer regions and cities. Parts of the country are, in terms of living standards, on a par with Mexico. Parts are as poor as sub-Saharan Africa.

The gaps are showing

Although India has, compared with other countries, a relatively equal distribution of income, it is a deeply unequal society, partly because of its legacy of social stratification and exclusion. The caste system is proving resilient, and there is evidence that, in some respects, the prejudice against girl children is worsening. In rich areas, sex-selective abortion is leading to highly skewed sex ratios at birth. Nor is the bias any less among the poor. A girl born in the early 1990s was 40% more likely than a boy to die between her first and fifth birthdays.

All of this reads like a list of reasons for gloom about India. Far from it. The beauty of reducing the country's myriad problems to two big, related, ones, is that of all simplification: it makes the solutions seem simpler, too, even if this economic diagnosis of India's ills suggests cures that are mainly political.

Most recent Indian governments, and the present one above all, have a clear and sensible idea of their priorities: investing in infrastructure, health and education, and in improving agricultural productivity. It is not the policies that are failing so much as the machinery for implementing them. In electoral politics, good policy is often forgotten for vote-grabbing promises of jobs, contracts and subsidies. And the Indian civil service, like bureaucracies everywhere, is adept at resisting reform. But India is big enough to have plenty of stories of successful reform that can be imitated: most involve making providers of taxpayer-financed services more accountable for their delivery. Spreading those lessons should not be beyond the world's biggest democracy.

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* “India. Inclusive Growth & Service Delivery: Building on India's Success”. World Bank Development Policy Review, 2006

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Global health

A shot of transparency

Aug 10th 2006
From The Economist print edition

Governments have been reluctant to share information about possible pandemics of disease. Happily, that is changing

Reuters

Get article background

“FOR the sake of basic human interests, the Indonesian government declares that genomic data on bird-flu viruses can be accessed by anyone.” With those words, spoken on August 3rd, Siti Fadilah Supari started a revolution that could yet save the world from the ravages of a pandemic disease. That is because Indonesia's health minister has chosen a weapon that may prove more useful than today's best vaccines in tackling such emerging threats as avian flu: transparency.

At the moment, the world's pandemic-alert system is distressingly secretive. Some countries, such as Vietnam, have been fairly open about new outbreaks of the sorts of infectious disease that might lead to pandemics, and have even invited foreigners in to help diagnose the problem. Most, however, have not been so forthright. Public-health experts point to China and Thailand, both of which suffered outbreaks of potential pandemic illnesses in the past few years (SARS in China and avian influenza in Thailand) as examples of places that do not fully disclose the relevant details.

Until now, Indonesia has followed their lead, only to sink ever deeper into the mire. Nearly four dozen people have died of avian flu in the country, over a quarter of the global total since the outbreak of the disease three years ago. Outside experts worried that the virus might be mutating in new and troublesome ways, but found their access to vital genetic data blocked. Indonesian researchers working on the virus did share data with the regional collaboration centres of the World Health Organisation (WHO), but that, until Ms Siti's announcement, was on condition no one else could analyse those data.

What's mine's my own

The reasons for countries' reluctance to share information are understandable, though hardly defensible. Some believe that full disclosure could cause locals to panic and foreign tourists to stay away. Juan Lubroth, who runs the emergency prevention system for infectious animal diseases at the United Nations'

Food and Agriculture Organisation (FAO), observes that fear of losing exports is another factor. When Thailand's troubles with bird flu became known, the resulting collapse in poultry exports cost it well over $1 billion.

The least defensible motive is vanity. Individual researchers, academic institutes and even national governments want the glory and research funding that come with solving the puzzle of a new pandemic and being first to publish. In this, developing countries are not alone. America's Centres for Disease Control (CDC) also restricts access to some of the genetic data that it has analysed from various parts of the world.

This puts international organisations like the FAO and the WHO in a difficult position. On one hand, they are supposed to be vigilant about emerging threats that could affect public health, which argues for faster and fuller release of data. On the other, their statutes require them to answer to member governments, many of which are not keen on transparency. That may explain the conflicting attitudes found among staff at UN organisations.

Paul Gully, a senior adviser on communicable diseases at the WHO, for example, defends the existing system in which countries share data within the WHO but not with outsiders. Too radical a move toward openness, he believes, “might stop countries from sharing data altogether and so hurt the fight”. But Dr Lubroth, looking from the FAO's point of view, insists that “any benefits of hiding data are short-lived. To be able to divulge without politics interfering would help matters greatly, as we now see only the tip of the iceberg.”

In practice, the world seems to be moving his way. The Global Pandemic Initiative, formed in May, is a collaboration between the WHO and the CDC, together with IBM, a large computer firm, and over a dozen other groups. It is intended to develop “the use of advanced analytical and computer technology as part of a global preparedness programme for responding to potential infectious disease outbreaks.” One approach IBM hopes to take is to develop software that will help predict how diseases might spread.

Another new group wants to turn the entire process of identifying outbreaks on its head. Larry Brilliant, a former WHO official who helped to eradicate smallpox in India, dreams of an open-source, non-governmental, public-access network that would help the world move quickly whenever potential pandemics start brewing. He looks for inspiration to the Global Public Health Intelligence Network (GPHIN), an obscure programme run by the Canadian government that searches public databases in seven languages looking for early signs of disease outbreak.

Dr Brilliant, who is now the head of Google's philanthropy arm, made his wish known at the Technology Entertainment Design conference, an annual gathering in California of leading entrepreneurs and thinkers from the information-technology and entertainment industries. His speech so galvanised the gathered titans that he now has the backing of Sun Microsystems, Google and several big Silicon Valley venture-capital funds and investors. They are helping to develop a new “web crawler” that will expand GPHIN to track newspapers and internet blogs in 40 to 100 languages.

A reasonable objection to such a system is that it is based on press reports, not verified scientific data. Even so, its supporters argue that it could prove valuable. Press reports have the virtue of immediacy, and its results will always be subject to verification by the WHO and government authorities, of course. But its very existence might persuade them to act more promptly. After all, that is what GPHIN did a few years ago during the SARS outbreak, when it sounded the alarm and forced the authorities to respond. The direct result, in Dr Brilliant's words: “SARS is the pandemic that did not occur.”

His proposed open network could well spot the next, as yet undiscovered, threat. And systems like the one that the Global Pandemic Initiative is working on could use that information to help researchers develop vaccines rapidly in response. “The threat of a pandemic is a definitively global phenomenon,” argues Samuel Palmisano, IBM's chairman. “Our response must be similarly global, and must rely...on open, collaborative innovation.”

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Weather forecasting

Riders on a storm

Aug 10th 2006
From The Economist print edition

How to detect thunderstorms before they happen

AP

THUNDERSTORMS are notoriously unpredictable, as many a drenched picnicker can attest. Although meteorologists know what conditions favour their formation, they are hard-pressed to say exactly where a storm will occur until it is almost too late.

One reason is that the radars used to track storms can detect water in the atmosphere only once it has condensed into clouds or raindrops, and thus reflects the beam. By the time that happens, a storm is imminent. It would be better if there were some way to see atmospheric water while it is still vapour, before raindrops form.

Rita Roberts, of the National Centre for Atmospheric Research, in Colorado, and Frederic Fabry, of McGill University in Canada, think they have found out how to do this. Their method exploits the fact that water vapour changes the speed at which radar waves travel though air. That enables use to be made of what was previously just irritating noise—the part of a radar beam that is reflected not from raindrops, but from fixed objects such as buildings.

Since the distance from any given radar to each of these reflective surfaces (which may be as much as 50km, or 30 miles, away) is known precisely, the time it takes a beam to get there and back is a measure of how much water vapour it contains. With only one radar, this measure is not very informative, but the researchers' method uses four, pointing in different directions through the same air-mass.

Combining the signals from all four radars using some newly designed software means that the water content of the atmosphere can be sampled at points 4km apart. The existing system in America, which relies on weather balloons, samples points about 150km apart. The result is that incipient storms can be detected several hours before they burst, and picnickers need never be drenched again.

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Radiology

Your bosom buddy

Aug 10th 2006
From The Economist print edition

A new technology that may improve the detection of breast cancer

SUCCESSFUL treatment of breast cancer depends on early diagnosis. The most widely used test relies on a low dose of X-rays to generate detailed images of the organ. This technique, known as mammography, can show changes in the breast well before a woman or her doctor can feel them, and it has significantly reduced mortality from the disease.

Reading mammograms, however, is a tricky business. Some signs of cancer appear, to the eye, similar to normal tissues on a mammogram. By contrast, dense but healthy breast tissue can obscure tumours beneath it. As a consequence, radiologists relying only on their own judgment may fail to notice up to 30% of breast lesions during screening, even though two-thirds of those lesions are visible in retrospect.

Computer-aided detection (CAD) can help. It uses special algorithms to scan mammograms and alert radiologists to things that seem suspicious—a strategy known as feature extraction. CAD has substantially increased the number of tumours identified. It is, however, less than ideal. The sensitivity of the technique to potential abnormalities is often raised, in order not to miss anything important. But that introduces false positive results; in other words, some normal tissues are marked as suspicious. In addition, existing CAD systems do not provide any explanation about how they came to their conclusions. Without such an explanation, some radiologists are reluctant to accept a diagnosis at odds with what they think their eyes are telling them.

Georgia Tourassi, of Duke University Medical Centre, North Carolina, and her colleagues hope to overcome this reluctance to be overruled by a machine. They are developing a CAD system that not only detects cancer more accurately than existing ones, but also acts more like an intelligent colleague than a black box. Instead of relying on feature extraction, Dr Tourassi's technique works by comparing the images taken by a radiologist with a large collection of normal and abnormal mammograms held in a database. This still requires algorithms, but of a different type. She and her colleagues have developed template-matching algorithms to compare the intensity and distribution of pixels in different images. They have also created decision algorithms to determine, after it has been compared with the entire database, whether a region of interest on a mammogram is normal or cancerous.

The diagnosis of the cases in the database has been confirmed, either by biopsy or by long-term follow-up, so there is no doubt about their details. If a new mammogram is similar to known cases of breast cancer, this would give reason for suspicion. This is exactly how a radiologist relates a case to those he saw in the past.

Making a clean breast

Dr Tourassi has found that her system can reliably distinguish tumour masses from normal tissues, and has a lower rate of false positives than systems based on feature extraction. Also, crucially, it can explain to a radiologist how it reached its decision by showing him similar mammograms in the database. The radiologist is then in a better position to decide whether the computer's judgment is valid.

The knowledge-based system has another bonus, too. As mammograms of new cancer cases are added to the database it is looking at, it will become cleverer—just as radiologists and physicians become more experienced and skilful as they come across more patients. This is in contrast to feature-based CAD systems, which cannot adapt to new cases unless their algorithms are suitably modified. However, there is a potential problem in the long run. The knowledge-based CAD system has a huge demand for computing power and, as the database grows, it will get slower and less efficient.

Dr Tourassi, however, has been thinking about this problem. She suspects that by using only the most informative mammograms, it might be possible to keep the size of the database within reasonable limits. To decide which ones to select, she turned to a branch of science called information theory. This theory says that the amount of information in a system can be measured in terms of its entropy.

Entropy is actually a measure of disorder. In the context of image processing, it is an indication of the complexity of an image. For example, an image that is all black or all white has zero entropy; an image of a chessboard, which contains an equal number of regularly distributed light and dark pixels, has low entropy; images with more varied distributions of many intensity levels of pixel have high entropy and are considered more informative.

Entropy is the basis of a standard indexing strategy for images and is often calculated automatically when they are put into a database. It is therefore easy to rank a collection of images by their entropy. In a pilot study, Dr Tourassi and her colleagues tested whether a subset of high-entropy mammograms would work as effectively as using the whole database.

Their entire database contained 2,318 mammograms from the Digital Database for Screening Mammography collected at the University of South Florida, but they varied the size and content of the collection of images examined by their algorithms, by either randomly selecting a subset of mammograms or choosing those with high entropy. They measured the utility of the different sets of images by taking each mammogram within it in turn, and testing it against all the others.

Their conclusion was that testing against only the 600 most informative mammograms was as effective as using all 2,318 images. And the system took less than three seconds per query—far faster than a radiologist could manage. A mammogram-reading machine that not only mimics but surpasses human perception and can explain its diagnosis would truly be a girl's best friend.

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Evolution

Stooping to conquer

Aug 10th 2006
From The Economist print edition

How to become multicellular

VIEWED from humanity's lofty heights, single-celled creatures are the scum of the earth. In reality, though, almost all living things are unicellular, and with good reason. Multicellularity requires most of the cells in a body to make the supreme Darwinian sacrifice, by giving up reproducing. This helps the few cells specialised for reproduction to do so more effectively. Since the self-sacrificing cells have the same genes as the specialised reproducers they are, in effect, reproducing collaterally. But it is still a hard trick to pull off, and it has not happened often.

One creature that has managed the trick—separately from plants, animals and fungi, who are the real experts in the field—is an alga called *Volvox carteri*. An adult *Volvox* consists of around 2,000 body cells, whose job is to move the organism around using their flagella, and 16 cells capable of reproducing.

Clearly, *Volvox* evolved from similar algae that exist only as single cells, but until now the genetics of the process have been obscure. However, as they report in *Molecular Biology and Evolution*, Aurora Nedelcu of the University of New Brunswick and Richard Michod of the University of Arizona think they have worked out what happened. In doing so, they have shed light on the type of process that eventually resulted in human beings.

The gene that stops the body cells of *Volvox* reproducing is called *regA*. It works by suppressing the production of proteins needed to make new chloroplasts in a cell. Chloroplasts are the structures in which photosynthesis happens. Without an adequate supply of them a cell cannot grow big enough to divide.

What Dr Nedelcu and Dr Michod did was to look for an antecedent of *regA* in a single-celled creature, in order to find out what its job was. By searching for genetic sequences similar to *regA* in the burgeoning databases of genes that now exist, they found one in a unicellular alga called *Chlamydomonas reinhardtii*. In *Chlamydomonas*, the gene only gets switched on when environmental conditions are poor—for instance, when sunlight or nutrients are scarce. That keeps *Chlamydomonas* from wasting resources during hard times, increasing its likelihood of reproducing over the long haul.

Apparently, a mutation in this gene—or, more probably, in the control system that activates it—gave rise to *Volvox*. When that happened, individual cells could turn their reproductive capacity on or off according to the function they served in *Volvox*'s body. Though this often doomed an individual cell's own genes, it gave rise to a co-operative organism that successfully passed those genes on indirectly.

What genetic change allowed multicellular animals to come into existence remains obscure. But *Volvox* shows the sort of thing to look for: a gene that stops reproduction in single-celled creatures and has been co-opted to do a new job.

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Dance

On top of the world

Aug 10th 2006 | BERLIN
From The Economist print edition

Germany is now the dance centre of the world

IN MANY European countries, dance, specifically ballet, the classical form recognisable the world over, is a known quantity. Renowned companies, star performers and a public that is hugely enthusiastic for and often well-informed about this most demanding of art forms, constitute a clear, national dance culture.

Ballet at the French court began under Louis XIV and most of its key terms—*arabesque*, *fouetté* and the rest—are still expressed in French. In Russia, the Bolshoi and the Kirov are still two of the biggest names in ballet. In Denmark, Auguste Bournonville, the son of a French dancer, became artistic director of the Royal Theatre Ballet School in Copenhagen in the 1830s and created one of the most famous ballets of all, “La Sylphide”. In Britain, the Royal Ballet produced a recognisable style, combining elegance and interpretative élan with a certain reticence. In Spain, a folk rather than classical idiom predominates; ballet has a profile there, but the most familiar style is, of course, flamenco.

In Germany, however, the story of ballet is wholly fragmented. Germany has never had, unlike most of the countries mentioned, a central court with a unifying royal family to support a ballet company based at a capital city's opera house. There has been virtually no continuous tradition of ballet anywhere in the country, although the Bavarian State Ballet in Munich has, with significant interruptions, been performing since the late 1800s.

Yet today Germany is one of the most dance-obsessed nations on earth. Dance festivals, congresses and symposia take place there on a regular basis. A monthly magazine, *ballettanz*, sells thousands of copies and carries detailed coverage of international dance events. The pace is being stepped up. In June, the Federal Cultural Foundation instituted a scheme whereby nine cities will share a total of €12.5m ($16m) over five years to develop dance.

Most cities, including Berlin, Hamburg and Stuttgart as well as smaller places such as Freiburg and Leipzig, have a full-time dance company resident in the main opera house or state theatre. For years, outsiders have been coming in to run and create companies. In the Rhineland town of Mainz, for example, a 47-year-old Swiss, Martin Schläpfer, runs a top-level neoclassical dance company. Farther south, an Irish choreographer, Marguerite Donlon, has been making waves in Saarbrücken's state theatre with rather more spiky, avant-garde fare. William Forsythe, an American choreographer who has been in charge since last year of his own privately sponsored company in Germany, built up a formidable contemporary repertoire over two decades as director of Ballett Frankfurt before it was disbanded in 2004.

Milwaukee-born John Neumeier took over the Hamburg Ballet in 1973. Now in his mid-60s, Mr Neumeier can fairly claim to have brought the company an international following. John Cranko, a South African, ran the Stuttgart Ballet from 1961 until his death 12 years later. His name and style—drawn largely from the Royal Ballet, where he danced—live on in the city's John Cranko School.

The sheer variety of dance, from the most modern, and sometimes frankly audience-unfriendly, work, to the standard works such as “Giselle”, “Swan Lake”, “La Bayadère” and “Romeo and Juliet”, make Germany, perhaps unexpectedly, as rich in dance as France is in cheeses.

Next week sees the start, in Berlin, of “Tanz im August” one of the longest international dance festivals anywhere, using numerous venues across the city and with parties spilling out on to the pavements until the early hours. The capital's state-subsidised theatres and opera houses are closed for the summer, so the festival hires three major houses—the Hebbel Theatre, the Berlin Festspielhaus and the Schaubühne—and takes advantage of a public that is in holiday mood and keen to sample something different: big names—such as Anne Teresa De Keersmaeker, a dancer-choreographer from Brussels—feature alongside more experimental work taking place in zanier venues such as Dock 11 and the Podewil, near Alexanderplatz.

The festival, which began in 1988, has been run since 2004 by André Thériault. “There is a need to dance here,” he says. “Germany is very strong on the spoken word. In the performing fields, it has a vigorous intellectual culture but traditionally not one that is good with the body. The opposite of speaking is not to speak: that is, to move. That, broadly, is what Germany has discovered in the last ten years.”

Mr Thériault sees Berlin as being central to Germany's dance boom. Young dancers and choreographers began settling there in the late 1990s, drawn by the attractive international working environment, low living costs and a sense of excitement that gave Berlin a reputation as a “happening place”. Three-quarters of Germany's independent dance companies are now located in Berlin.

The shock of the new

Sasha Waltz, a 43-year-old choreographer, personifies Mr Thériault's view of Berlin as a magnet. Originally from the south-western town of Karlsruhe, and having studied in Amsterdam and New York, Ms Waltz founded a small Berlin dance space, the Sophiensæle, in 1996. She immediately made a name for herself with feisty, witty pieces that marry vibrant choreography with allusions to the everyday, the urban, the familiar: slapstick crossed with pert questions about sexuality. In 1999, she was named choreography director of the Schaubühne. There, she created, among half a dozen brilliantly innovative shows, a memorable dance trilogy—“Körper” (“Bodies”), “S” and “noBody”—which toured internationally.

Ms Waltz terminated her relationship with the theatre in 2004. Fears that she might abandon Berlin have proved unfounded; she now operates from an office in the capital's centre. A shared, interdisciplinary space where her company can rehearse and perform is shortly to open near the city's Ostbahnhof (east station) and collaborative ventures with Berlin's Staatsoper are planned. The most exciting German dance artist to emerge from the post-reunification years is sure to keep Berlin in the choreographic frontline.

But perhaps the most surprising development in German dance took place in the small town of Wuppertal, near Cologne. In 1973, a 33-year-old dancer named Pina Bausch was invited to take over the directorship of Wuppertal's ballet. It soon became known as Tanztheater Wuppertal and two years later Ms Bausch created Germany's most radical post-war staging of a 20th-century classic: Igor Stravinsky's “The Rite of Spring”.

Since then, Ms Bausch has produced more or less one show a year, many of which are considered modern-dance classics: “Komm tanz mit mir” (“Come, dance with me”), “Cafe Müller”, “Nelken” (“Carnations”, pictured above), “Viktor”, “Danzón” and “O Dido”. Her style, combining beautiful ensemble dancing with crazy solos which might involve disrobing, lighting a candle, hair-brushing, setting a newspaper on fire, even swimming, and always a great deal of talking, has had considerable influence on choreographers both inside and outside Germany.

Ms Bausch exemplifies a trend that is far stronger in German dance than ballet could ever aspire to be. *Tanztheater* (“dance theatre”), of which Ms Bausch is the first lady, in fact has pre-war roots. In the 1920s, pioneering figures such as Rudolf Laban and Mary Wigman began using unfamiliar movements which relied more on bodily improvisation and spiritual ideas—particularly from the East—than on

preordained steps. Ballet requires rules and conventions. Modern German dance, as heralded by Laban and Wigman, has veered towards self-expression and subjectivity. Roland Langer, who observed Ms Bausch's choreography from its beginnings, wrote in *Dance Magazine* in 1984: "*Tanztheater* refers to a performance form that combines dance, speaking, singing and chanting, conventional theatre and the use of props, set, and costumes in one amalgam...It has been described as a new twist on an old form: German Expressionism."

This was promulgated, too, by another innovative figure, Kurt Jooss, whose 1932 piece "The Green Table" is still performed by companies on several continents. Jooss, who died in 1979, was the founder in the 1930s of the Folkwang School in the Ruhr city of Essen, before he was forced to flee the Nazis. The Folkwang's most celebrated graduate was Pina Bausch.

Ms Bausch's signature can be detected in a great deal of modern German choreography. Without her example, someone like Ms Waltz would not be thriving, although Ms Waltz is adamant that she is more influenced by Trisha Brown, an American choreographer, than her compatriot in Wuppertal.

One of the wonders of this intense interest for dance among Germans is that it has flowered in relative backwaters such as Wuppertal and Wolfsburg, the Volkswagen town where the annual dance festival now draws nearly half of its audiences from outside Germany. Unusual individuals such as Ms Bausch have, moreover, laid down aesthetics for an art form which, in this large, culturally often fractious country, has always lacked a centre.

Time to be vigilant

In recent years, however, critics have been lamenting a tendency in Ms Bausch to repeat herself: a waning of inspiration. While this may be true of works from three or four years ago which drew nakedly on other cultures—Turkey, Japan and Korea—in order to reflect co-production funding from cities in those countries, her Wuppertal première of "Vollmond" ("Full Moon") in May was vintage material. A man balanced on upturned drinking-glasses. Another twisted and turned on the ground skilfully avoiding stones that another pours on him. In one of the funniest scenes, a girl coquettishly encouraged several men to unfasten her bra-strap, chiding each for being too slow.

In Mainz, Mr Schläpfer, whose choreography is more restrained and calibrated than Ms Bausch's, acknowledges her importance but sounds a note of warning: "She's an exceptional artist, a genius in my view, but it's been too easy for others after her to come along and say, 'This is *Tanztheater'*. You can't just copy what she does and expect to be admired. Yes, her people talk on stage, she creates this whole world, but they also dance superbly. Nothing she does is pretentious and she should not, cannot, be imitated. People in the German arts sometimes take themselves too seriously and work claiming to be *Tanztheater*, just by dint of being German and choreographic, can end up looking ridiculous."

Mr Schläpfer's words are apposite: pastiche, pretentiousness and, for audiences, downright boredom at posturing and silliness are dangers the post-Bausch generation will need to avoid. That said, while Germany and Germans might long have suffered from a reputation for heaviness and gravity, in theatres across the country, dancers are dancing: Germans are revelling, maybe for the first time in their history, in the sensation of being light—on their feet, at least.

"Tanz im August" is on in Berlin from August 17th to September 2nd. Information and tickets are available from www.tanzimaugust.de

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Fly-fishing

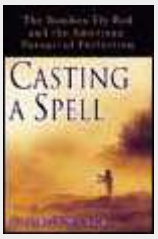
It runs through the river

Aug 10th 2006
From The Economist print edition

Bill Foley

The line of beauty

Casting a Spell: The Bamboo Fly Rod and the American Pursuit of Perfection
By George Black



Random House; 272 pages; $23.95

Buy it at
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THIS is the story, as the author admits, of the worm in the bud: the age-old battle between perfectionism and economics. On the one hand a clique of craftsmen, handing down through small workshops the knowledge of how to make something slight, exquisite and precious, and on the other the combined forces of wealthy uncaring customers and wealthy uncaring owners. The Italian Renaissance ran along the same lines. Only instead of narrating the history of art, this skilfully told tale is about the rise, fall and, in its own small way, renaissance of the craft of making bamboo (what are called in Britain “split cane”) fly-fishing rods.

The classical age occurred in the mid-19th century in the Maine woods, those woods of which Henry David Thoreau wrote, which were becoming the playground for adventurous “sports” from the East coast cities. Fishing rods were clumsy instruments made from hickory or ash until Hiram Leonard began to popularise hexagonal bamboo rods made from Chinese bamboo, called Tonkin cane, which had a quality that surpassed Indian cane traditionally used by the British.

Out of the tradition of Yankee craftsmanship a circle of excellence grew up around Leonard: Mills, Thomas, the Hawes brothers and Edwards, each a name to conjure with in the eyes of rod collectors. George Black tells their story and that of the bamboo rodmaking craft through the life of the last of the craftsmen, Eustis Edwards, and one of his rods, the Perfection, perhaps the greatest fly rod ever made.

It is amazing that the craft survived. The Depression, the second world war, the invention of fibreglass and the fixed spool reel; all were nails banged into the coffin of bamboo rodmakers. Yet somehow the knowledge and perfectionism that Edwards represented hung on in the hands of a few unlikely enthusiasts. Today these rods sell for over five figures.

For anyone other than a fly fisherman, or more precisely for anyone other than a fly fisherman who has not used and loved bamboo rods, this book will closely resemble one of those over-enthusiastic dinner guests whose knowledge and enthusiasm for their pet subject, while endearing, is painfully obsessive. If, however, you accept that the name Leonard is to fishing rods as Stradivarius is to violins, and you have the curiosity to know how the very finest bamboo objects in the world were made, then you will find this book to be a small masterpiece: as graceful and delightful as the objects it describes.

Casting a Spell: The Bamboo Fly Rod and the American Pursuit of Perfection
By George Black.
Random House; 272 pages; $23.95

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About sponsorship

Culinary memoirs

The glories of food

Aug 10th 2006
From The Economist print edition

Books and food don't always mix well

HOWEVER enthusiastic and knowledgeable their authors may be, books about food are rarely as palatable as the meals they describe. Accounts of other people's eating lose a lot in the telling, while kitchen horror stories may be gripping, but fail to satisfy.

Bill Buford's “Heat” is a glorious exception. The author is a world-class wordsmith: a writer on the *New Yorker* and before that the founding editor of Britain's best fiction periodical, *Granta*. He is also a keen but (by his own admission) “fundamentally clueless” amateur cook. He lacks a sense for time and quantities; he can't plan. The food that he inflicts on his friends is burnt or raw or both.

Perhaps, he thinks, spending a bit of time with professional cooks might help. Someone less obsessive might start off taking a few cookery courses, or working in a gently paced kitchen with some indulgent tutors. Not Mr Buford. He starts off as a “kitchen slave”, the lowest of the low, in one of New York's best Italian restaurants. It helps, a bit, that it is owned by a friend, Mario Batali.

And that's what gives this book its depth. It's not just about food, and cooking, but about the culture and history that surround them, and a journey into a world where managing words comes a poor second to skills with flavours. Mr Buford also has a biographer's gift of bringing characters to life. From the humble slicers and dicers who dream one day of running their own place, to titanic personalities such as Marco Pierre White, a volatile London restaurateur, Mr Buford fills his book with people as pungent and spicy as the food. Mr White's spectacularly chaotic life is matched only by the gargantuan appetites of his New York counterpart, and one-time student, Mr Batali, who rejoices in the motto: “Wretched excess is just barely enough”.

What starts as a journalist's jape turns into a sometimes disquieting mission. Mr Buford's desire to understand the lore of meat, for instance, leads him to decamp with his long-suffering wife to a dingy Italian hill town where a temperamental butcher will sometimes (if he likes you) sell you the best meat in Italy. In the end, though, Mr Buford's book deserves to be a bestseller, and his fans will be pleased that his culinary odyssey has only begun; he finishes the book consumed by curiosity about French cooking.

Mr Buford's uninhibited *joie de manger* is in stark contrast to the leaden prose and patronising tone of David Kamp's history of American gastronomy. The sort of person who reads restaurant guides for fun, and sees food as a branch of fashion, may enjoy his interminable account of chefs, restaurants, dishes and fads. The diligence of the research is certainly striking: if everyone mentioned in the book buys a copy, it will do well. But for the general reader, the onslaught of names is overpowering. And whereas Mr Buford's asides are uproarious, Mr Kamp's are tiresomely cutesy.

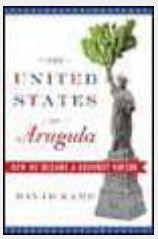
It is a relief to turn to Warren Belasco's ingenious analysis of the way in which

Heat: An Amateur's Adventures as Kitchen Slave, Line Cook, Pasta-Maker, and Apprentice to a Dante-Quoting Butcher in Tuscany
By Bill Buford

Knopf; 318 pages; $25.95
Random House; 336 pages; £17.99

Buy it at
Amazon.com
Amazon.co.uk

The United States of Arugula: How We Became a Gourmet Nation
By David Kamp



Broadway Books; 416 pages; $26

Buy it at
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Meals to Come: A History of the Future of Food
By Warren Belasco

optimists and pessimists alike use food to illustrate their vision of the future. Malthusians think we will starve. Cornucopianists believe an age of plenty is just round the corner. One lot say food is getting cheaper and better than ever. The other insist that it is increasingly less nutritious and environmentally unsustainable to produce. As well as science fiction, he mines journalism, advertising and political propaganda for examples of false predictions, ranging from the amusing (dog-sized cows in every garden, according to *Reader's Digest* in 1955) to the outright foolish, all handled with a welcome mix of scepticism and tolerance.

University of California Press; 396 pages; $55 and £35.95

Buy it at
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Amazon.co.uk

Mr Belasco concludes by suggesting that forecasts need demystifying. “We need to be more savvy about the rhetorical conventions, false dichotomies, inappropriate analogies, questionable assumptions and dubious calculations that keep cropping up whenever the future is discussed.” Second helpings of that, please.

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By Bill Buford
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Broadway Books; 416 pages; $26

Meals to Come: A History of the Future of Food.
By Warren Belasco.
University of California Press; 378 pages; $55

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New thrillers

Treats off the street

Aug 10th 2006
From The Economist print edition

The war on terror is good for thrillers

THE chaotic and violent headlines of the early 21st century may be bad news for humanity, but their stories offer a rich seam of material for thriller writers. Four new thought-provoking books draw on the war on terror, the fallout from the cold war, the anti-globalisation movement and the murky links between Western intelligence services and terrorism.

The contemporary resonance brings an extra frisson, but a satisfying thriller demands more than a dash of newsy verisimilitude. It needs a sympathetic protagonist, who is forced, ideally by circumstances beyond his or her control, to journey into a world of danger and betrayal. The odyssey should also compel the hero/heroine to confront some long-buried personal ghosts, to further ratchet up the tension, while not falling victim to formulaic writing or cliché.

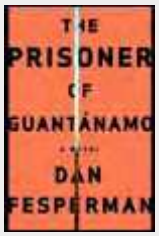
Just as important is location. Dan Fesperman's portrayal of the claustrophobic hothouse of Guantánamo Bay, with its watchful lizards, boiling libidos and inter-agency rivalry, is masterful. The reader can almost feel the heat closing in, and see the wretched prisoners muttering in their sleep as they toss and turn. Mr Fesperman, a foreign correspondent for the *Baltimore Sun*, has previously written novels about Sarajevo under siege, Bosnian war criminals in Berlin and the American invasion of Afghanistan. He adroitly brings to life both the detainee and his interrogator, Revere Falk. But when both are trapped behind barbed wire, who is really the prisoner? Here is the human cost of the war on terror, subtly delineated.

“The Last Spymaster” and “Invisible Armies” are both “high concept” versions of the chase thriller. These call for a deadly enemy with a sinister global reach, in which much more is at stake than the mere lives of the characters. Chase thrillers demand a fast pace, a plot that twists like a snake and a trail of corpses. Gayle Lynds, a *New York Times* bestselling writer, co-authored three novels with Robert Ludlum and his influence is evident. Ms Lynds too quickly puts her heroine through the mill as the corpses pile up.

The difficulty with chase thrillers is varying the pace and keeping control of the narrative. Like Mr Ludlum, Ms Lynds tends to use lots of short sentences. Which can make for a rather. Staccato. Feel. Her heroine Elaine Cunningham is a CIA hunter on the trail of Jay Tice, a former chief of the CIA's clandestine service. Tice turned traitor but somehow managed to escape from a top-security prison. Cunningham hunts Tice. Tice hunts Cunningham. But who is hunting them? Step forward, naturally, a sinister international conspiracy. Thrillers written from multiple points of view demand a writer with considerable technical skills. Ms Lynds carries off her assignment with aplomb. Plentiful tradecraft and relentless danger combine with some clever plot twists for an entertaining read.

Jon Evans's “Invisible Armies” also has a female protagonist. Publishers want to expand the genre's appeal away from the purely male. Mark Burnell's acclaimed series feature Petra Reuter, a professional assassin with a split identity. But do women readers share the male fascination with espionage? Perhaps they should:

The Prisoner of Guantánamo
By Dan Fesperman



Knopf; 336 pages; $24
Hodder & Stoughton; £12.99

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The Last Spymaster
By Gayle Lynds

St Martin's; 416 pages; $24.95 and £17.99

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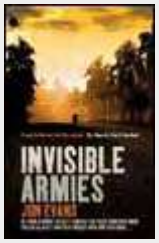
Invisible Armies
By Jon Evans



Hodder & Stoughton; 384 pages; £18.99

Buy it at
Amazon.co.uk

from Mata Hari to the female agent who lured Mordechai Vanunu into a Mossad trap, some of the best spies have been women. Danielle Leaf, Mr Evans's protagonist, is not a professional spy, but an everywoman. An anti-globalisation activist, she is suddenly thrown into a violent and dangerous world where she must draw on every reserve of skill and courage to stay alive.

Mr Evans is a vivid guide to the shrill, self-righteous universe of the anti-globalisation movement. He is strong on street-fighting tactics, how to deploy the violent anarchist avant-garde against the police, and on the intricacies of computer hacking. Yet curiously, a promising plot about a cynical mining corporation falters about halfway through the book, giving it a sense of peaking too early. The second part, in which Danielle and her hacker friend Keiran are tortured and held prisoner on a boat controlled by computers, is a fairly standard escape adventure. Nonetheless, “Invisible Armies” is an intriguing, pacy read and Mr Evans shows great potential.

The Passenger
By Chris Petit

Simon & Schuster; 400 pages; £12.99

Buy it at
Amazon.co.uk

Mr Fesperman, Ms Lynds and Mr Evans are good on the ambiguity of their characters' lives. Every choice has a moral cost in a world of shades of grey. But who chose to place a bomb on Pan Am's flight 103, that exploded over Lockerbie? Chris Petit's “The Passenger” is a dark journey into the wilderness of mirrors inhabited by the intelligence services. James Collard should have been on board the plane. At the last moment he changed his plans but his son Nick flew on. Or did he? There is little violence in “The Passenger” as Collard searches for his son. Instead Mr Petit attempts something subtler: a psychological odyssey into a world of deception and opacity, where nothing is as it seems, including the ghost of an American spymaster. “The Passenger” is a skilful, unsettling work, whose narrative shifts and fractures until the book's surprisingly poignant denouement. While politicians stumble, it is left to novelists to make sense of the world. These books show how.

The Prisoner of Guantánamo.
By Dan Fesperman.
Knopf; 336 pages; $24. Hodder & Stoughton; £12.99
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By Chris Petit.
Simon & Schuster; 400 pages; £12.99

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Elisabeth Schwarzkopf

Aug 10th 2006
From The Economist print edition

Dame Elisabeth Schwarzkopf, a great soprano, died on August 3rd, aged 90

Getty Images

ONE evening in 1941, upset because she had been given a part in “Die Fledermaus” that had no solos and was generally inferior, Elisabeth Schwarzkopf kicked one of her shoes through the cyclorama that arched above the stage. It was meant to represent the blue and perfect sky. She tore a hole in that perfection.

This public tantrum was a rare aberration in her life. In the ample and temperamental world of female opera singers, she was a case apart. Beautiful, elegant, contained and precise, her world was really that of the concert hall or, better, the *lieder* recital in a salon at evening, with a fresh but tempered breeze blowing through the windows. On the stage she was best at heroines who were delicate and cerebral, not to say tubercular—the Mimis and Violettas—or else stylishly witty, in a Viennese sort of way. Although Miss Schwarzkopf's background was the solid Prussian middle class, a sparkling whirl of cafés and *Sachertorte* was much more her thing.

So was aristocracy. Her favourite roles were women who had breeding and the manners that went with it: Donna Elvira in “Don Giovanni”, the Countess in “The Marriage of Figaro” and, above all, the Marschallin in Richard Strauss's “Der Rosenkavalier”. From 1959 until 1971 Miss Schwarzkopf defined that role the world over, from La Scala to Covent Garden to San Francisco, singing the ageing noblewoman's passion for her young lover with not a hair astray, her sleek *peignoir* barely shivering with well-suppressed emotion, her brushes laid out neatly on the dressing table and every note in perfect place.

Cracks in the good behaviour were therefore all the more surprising. But they occurred. At the Deutsche Oper, which gave her her first contract at the age of 23, she made a thorough pest of herself in her quest for better roles. In 1942, after a run of nagging and being late for rehearsals, she flounced out, though not before she had drawn up a contract that booked her for 15 guest appearances a year and stated that “Casting decisions would have to accord with my artistic prestige.” She had tired of serving girls and village maidens, and wished the spotlight to be steadily on her.

Sheer determination had got her into the Deutsche Oper. Having fibbed at interview that she knew the part of the Second Flower Maiden in “Parsifal”, she crammed it for 36 hours, and was whistling it, to keep

it in her head, as she went to the dressing room. Determination, too, took her to Vienna midway through the war, her best audition dress stuffed in her suitcase, to make a bid for the attention of Karl Böhm at the Vienna State Opera. She succeeded, and went on to sing Mozart in a city in ruins and to an audience without bread.

Her career was often shaped by the bullying of other people, a bullying she accepted as necessary to excel. Her first singing teacher tried, mistakenly, to make her a mezzo; when she was in her 20s, another teacher took her voice apart note by note. But no more forceful influence entered her life than the tall, coarse-featured, foul-mouthed Englishman, peering through thick glasses and walking with a stick, who met her in 1946 in the Café Mozart in Vienna. His name was Walter Legge; he was prospecting for Columbia records and, in private, looking for a soprano who could sing the *lieder* of Hugo Wolf with the true expression they needed.

With Legge, whom she married in 1953, Miss Schwarzkopf was bullied as never before. Her first audition with him lasted two hours, much of which was taken up with the repetition of a single Wolf phrase, "*Wer hat dich herbestellt?*" ("Who summoned you here?"), until it was exactly to his liking. For months afterwards, seated by his gramophone, she was made to listen again and again to the way Dame Nellie Melba, with a single word, could reduce a house to tears; when she herself performed, Legge would watch from a stage box to check the audience reaction. But the hard lessons were learned perfectly. Other singers brought bigger voices and more emotion to the songs of Schubert and Strauss, but none brought the exquisite delicacy and artistry of Miss Schwarzkopf, whose *legati* were consciously copied from the violin and whose high *pianissimi* floated like feathers.

All through her career—opera singing increasingly giving way to recitals, and then in the 1980s to strict teaching—the poised, almost noble image was carefully cultivated. There had been, though, a darker side. Miss Schwarzkopf had joined the Nazi party in 1938, had collected for the *Winterhilfe* fund that helped soldiers on the eastern front, and had sung for the German occupiers in Paris. More than that, the whispers went, she had been protected and promoted in her career by a top Nazi who had fallen for her perfect Aryan looks and had become her lover. Confronted directly, at first by the Allies and later by the press, Miss Schwarzkopf hedged and fudged about it all.

Whatever she had done, and with whatever hopes of advancing her career, that world had soon enough come tumbling down. In 1944, back for a while from Vienna, she visited the Deutsche Oper to find the building bombed flat. Hanging from a blasted tree was her own girlish, frilly costume as the circus dancer Esmeralda in "The Bartered Bride". But such frippery, too, was in the past. The Marschallin-to-be glided away.

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Overview

Aug 10th 2006
From The Economist print edition

America's Federal Reserve held its benchmark interest rate at 5.25%, marking its first pause in two years of tightening. Meanwhile, productivity growth slowed: output per hour rose at an annual pace of 1.1% in the second quarter, compared with 4.3% in the first. As a consequence, unit labour costs outstripped expectations, rising by 4.2%, at an annualised rate, in the second quarter, up from 2.5% in the previous quarter.

American **job growth** was weaker than expected in July. Employers (excluding farms) added 113,000 jobs to the payrolls, and the unemployment rate rose to 4.8%, from 4.6% in June.

In **Japan** core machinery orders increased by 8.9% in the second quarter, signalling future capital spending. Bank lending rose by 2.2% in the year to July. It was the fastest increase in more than ten years.

Germany's industrial production declined by 0.4% in June, after a 1.5% gain the month before. The country chalked up a merchandise trade surplus of €13.3 billion ($16.8 billion) in June. In June 2005 the surplus was €16.7 billion.

In **Britain** industrial production fell by 0.2% in the second quarter, despite an increase of 0.6% in manufacturing output. The country's trade deficit in goods and services narrowed to £4 billion ($7.4 billion) in June, from £4.7 billion in May.

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Output, demand and jobs

Aug 10th 2006
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2006	2007	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		Unemployment % rate year ago
Australia	+ 3.1	Q1	+ 3.5	+ 3.2	+ 3.3	– 1.0	Q1	+ 3.6	Q2	4.8	Jul	5.0
Austria	+ 3.0	Q1	+ 2.4	+ 2.3	+ 2.0	+ 6.2	May	+ 0.9	Jun	4.8	Jul	5.2
Belgium	+ 2.8	Q2	+ 3.2	+ 2.4	+ 2.0	+ 7.6	May	+ 2.6	May	12.0	Jun†	12.3
Britain	+ 2.6	Q2	+ 3.4	+ 2.4	+ 2.5	– 0.7	Jun	+ 3.6	Jun	5.4	May‡	4.7
Canada	+ 3.2	Q1	+ 3.8	+ 3.2	+ 2.9	– 0.4	May	+ 5.7	Apr	6.4	Jul	6.8
Denmark	+ 3.5	Q1	+ 0.8	+ 2.7	+ 2.3	– 1.0	Jun	+ 3.6	Jun	4.5	Jun	5.8
France	+ 1.5	Q1	+ 2.1	+ 2.0	+ 2.0	+ 2.8	Jun	+ 1.5	Jun	9.0	Jun	10.0
Germany	+ 1.4	Q1	+ 1.6	+ 1.7	+ 1.3	+ 4.5	Jun	– 0.4	Jun	10.6	Jul§	11.8
Italy	+ 1.5	Q1	+ 2.4	+ 1.3	+ 1.1	+ 3.6	Jun	– 0.4	May	7.4	Q1	7.8
Japan	+ 3.8	Q1	+ 3.1	+ 3.0	+ 2.4	+ 4.8	Jun	– 0.3	May	4.2	Jun	4.2
Netherlands	+ 2.4	Q2	+ 4.0	+ 2.2	+ 2.1	+ 1.9	Jun	+ 8.8	May	5.5	Jun††	6.7
Spain	+ 3.5	Q1	+ 3.3	+ 3.3	+ 2.8	+ 5.4	Jun	+ 0.7	Jun	8.3	Jun	9.3
Sweden	+ 5.5	Q2	+ 5.6	+ 3.6	+ 2.9	+ 6.3	May	+ 7.4	Jun	6.3	Jun†	7.1
Switzerland	+ 3.5	Q1	+ 3.8	+ 2.8	+ 2.0	+ 9.2	Q1	+ 5.9	May	3.1	Jul†	3.5
United States	+ 3.5	Q2	+ 2.5	+ 3.4	+ 2.7	+ 4.5	Jun	+ 3.4	Jun	4.8	Jul	5.0
Euro area	+ 1.9	Q1	+ 2.4	+ 2.2	+ 1.8	+ 4.9	May	+ 1.5	Jun	7.8	Jun	8.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.8	Q1	+ 1.6	na	na	+22.3	Jun	+ 6.5	Jun	7.7	Jun	8.2
Greece	+ 4.1	Q1	na	na	na	+ 2.6	Jun	+ 6.9	May	9.7	Q1	10.4
Iceland	+ 5.0	Q1	na	na	na	na		na		1.3	May†	2.2
Ireland	+ 5.8	Q1	+ 4.4	na	na	+ 6.9	May	+ 4.4	May	4.4	Jul	4.3
Luxembourg	+ 7.3	Q1	na	na	na	– 1.4	May	– 4.7	Jun	4.0	Jun	3.9
New Zealand	+ 2.1	Q1	+ 2.3	na	na	– 0.7	Q1	+ 3.0	Q1	3.6	Q2	3.6
Norway	+ 5.4	Q1	+ 2.3	na	na	+ 1.7	Jun	+ 4.6	Jun	3.5	Jun††	4.7
Portugal	+ 1.0	Q1	+ 1.8	na	na	+ 1.7	Jun	– 4.9	Jun	7.7	Q1†	7.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡Mar-May; claimant count rate 3.0% in Jun. §EU harmonised rate 8.2% in Jun. ††Apr-Jun.

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Prices and wages

Aug 10th 2006
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2006	2007	latest		year ago	latest		year ago
Australia	+ 4.0	Q2	+ 2.5	+ 3.0	+ 2.8	+ 9.9	Q2	+ 6.9	+ 4.0	Q1	+ 4.5
Austria	+ 1.5	Jun	+ 2.3	+ 2.0	+ 1.8	+ 3.9	Jul	+ 1.1	+ 2.8	Jun	+ 2.2
Belgium	+ 1.6	Jul	+ 3.1	+ 2.2	+ 1.9	+ 6.1	Jun	+ 2.4	+ 2.3	Apr	+ 2.6
Britain	+ 2.5	Jun*	+ 2.0	+ 2.1	+ 1.9	+ 3.3	Jun	+ 2.5	+ 4.1	May†	+ 4.1
Canada	+ 2.5	Jun	+ 1.7	+ 2.3	+ 2.1	+ 2.2	Jun	+ 0.1	+ 0.3	May	+ 1.0
Denmark	+ 2.0	Jul	+ 2.0	+ 2.0	+ 2.0	+ 4.6	Jun	+ 3.9	+ 2.9	Q1	+ 3.1
France	+ 1.9	Jun	+ 1.7	+ 1.9	+ 1.6	+ 3.9	Jun	+ 2.9	+ 3.3	Q1	+ 2.9
Germany	+ 1.9	Jul	+ 2.0	+ 1.9	+ 2.3	+ 4.6	Jul	+ 2.5	+ 1.1	May	+ 0.6
Italy	+ 2.2	Jul	+ 2.1	+ 2.2	+ 2.0	+ 6.2	Jun	+ 3.7	+ 2.9	Jun	+ 3.0
Japan	+ 1.0	Jun	− 0.5	+ 0.5	+ 0.6	+ 3.4	Jul	+ 1.6	+ 1.1	Jun	+ 0.5
Netherlands	+ 1.3	Jul	+ 1.6	+ 1.5	+ 1.5	+ 5.8	Jun	+ 5.0	+ 1.9	Jul	+ 0.7
Spain	+ 3.9	Jun	+ 3.2	+ 3.7	+ 3.0	+ 6.3	Jun	+ 4.4	+ 3.0	Q1	+ 2.5
Sweden	+ 1.7	Jul	+ 0.3	+ 1.4	+ 1.8	+ 4.4	Jun	+ 3.2	+ 3.2	May	+ 1.6
Switzerland	+ 1.4	Jul	+ 1.2	+ 1.3	+ 1.3	+ 3.1	Jun	+ 0.5	+ 1.0	2005	+ 0.9
United States	+ 4.3	Jun	+ 2.5	+ 3.5	+ 2.6	+ 4.9	Jun	+ 3.7	+ 3.8	Jul	+ 2.9
Euro area	+ 2.5	Jul	+ 2.2	+ 2.2	+ 2.1	+ 5.8	Jun	+ 4.0	+ 2.2	Q1	+ 3.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.7	Jun	+ 1.1	na	na	+ 5.6	Jun	+ 4.0	+ 3.4	Q1	+ 4.0
Greece	+ 3.8	Jul	+ 3.9	na	na	+ 7.2	Jun	+ 5.0	na		na
Iceland	+ 8.4	Jul	+ 3.5	na	na	+11.8	Jul	+ 3.7	+ 8.8	Jun	+ 6.3
Ireland	+ 3.9	Jun	+ 2.1	na	na	− 0.4	Jun	− 0.3	+ 2.2	Q1	+ 6.4
Luxembourg	+ 3.2	Jun	+ 2.2	na	na	+ 7.4	May	+ 7.9	+ 2.2	Apr	+ 1.0
New Zealand	+ 4.0	Q2	+ 2.8	na	na	+ 7.2	Q1	+ 4.2	+ 3.3	Q2	+ 2.6
Norway	+ 2.1	Jun	+ 1.7	na	na	+13.2	Jun	+19.3	+ 3.6	Q1	+ 4.2
Portugal	+ 2.9	Jun	+ 1.6	na	na	+ 6.0	Jun	+ 3.5	+ 1.5	May	− 3.3

*RPI inflation rate 3.3% in Jun. †Mar-May.

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Economic forecasts

Aug 10th 2006
From The Economist print edition

August averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2006	2007	2006	2007	2006	2007	2006	2007
Australia	2.5/3.7	2.6/3.8	3.2	3.3 (3.4)	3.0 (2.9)	2.8 (2.7)	−5.7(−5.6)	−5.4 (−5.2)
Austria	1.8/3.0	1.4/2.5	2.3 (2.2)	2.0 (1.9)	2.0	1.8 (1.9)	0.4 (0.3)	0.5 (−0.1)
Belgium	1.5/2.8	1.5/2.6	2.4	2.0 (1.9)	2.2 (2.1)	1.9	1.5	1.6
Britain	1.9/2.8	2.0/2.9	2.4	2.5	2.1 (2.0)	1.9	−2.8(−2.9)	−2.9
Canada	2.9/3.5	2.6/3.3	3.2	2.9 (2.7)	2.3	2.1	2.3 (2.1)	1.6 (1.1)
Denmark	2.2/3.5	1.7/3.1	2.7	2.3 (2.2)	2.0	2.0	2.2 (2.3)	1.9 (2.2)
France	1.2/2.3	1.7/2.6	2.0 (2.1)	2.0 (1.9)	1.9	1.6	−1.8	−1.5
Germany	1.0/2.2	0.6/2.2	1.7 (1.8)	1.3 (1.2)	1.9 (1.8)	2.3	3.5 (3.7)	3.5 (3.8)
Italy	0.1/1.7	0.6/2.0	1.3	1.1	2.2 (2.1)	2.0 (1.9)	−1.7(−1.6)	−1.5
Japan	2.6/3.3	1.6/3.3	3.0	2.4	0.5	0.6	3.7 (3.8)	3.6 (3.8)
Netherlands	1.1/2.8	1.6/2.7	2.2 (2.3)	2.1	1.5	1.5	5.9	5.8
Spain	3.2/3.5	2.5/3.2	3.3	2.8	3.7 (3.6)	3.0 (2.9)	−7.9(−7.7)	−7.8 (−7.7)
Sweden	2.7/4.2	2.4/3.7	3.6 (3.7)	2.9 (2.8)	1.4	1.8	6.7 (6.6)	6.0 (6.1)
Switzerland	1.8/3.5	1.1/3.5	2.8 (2.9)	2.0 (1.9)	1.3	1.3 (1.2)	12.7(13.4)	11.9 (12.5)
United States	3.1/3.7	1.9/3.3	3.4	2.7	3.5	2.6 (2.4)	−6.7(−6.8)	−6.8 (−6.9)
Euro area	1.3/2.6	1.4/2.7	2.2	1.8	2.2	2.1	−0.4	−0.3

Sources: ABN AMRO, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, JPMorgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Citigroup, Scotiabank, UBS

Each month *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances in 15 countries and the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where they are different, are shown in brackets. The panel now expects American inflation to reach 2.6% in 2007, compared with July's prediction of 2.4%, but it has lowered its projection for the 2006 current-account deficit to 6.7% of GDP from 6.8%. The soothsayers think that Germany will grow by 1.7% this year, compared with their forecast of 1.8% in July. It also expects Germany to amass a smaller current-account surplus. The panel has lowered its projection for Japan's current-account surplus to 3.7% in 2006, down from July's prediction of 3.8%.

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Money and interest rates

Aug 10th 2006
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Aug 9th 2006)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+10.2	+ 9.6	Jun	6.18	5.63	5.87	5.77	5.33	4.94
Britain	+ 5.7‡	+13.5	Jun	4.92	4.53	4.92	4.67	4.39	5.73‡
Canada	+12.3	+ 6.4	Jun	4.16	2.60	4.14	4.32	4.08	5.54
Denmark	+13.2	+10.0	Jun	3.28	2.20	3.62	3.93	3.32	5.20
Japan	+ 3.2	+ 0.5	Jul	0.34	0.02	0.80	1.86	1.44	2.02
Sweden	+ 0.2	+10.5	Jun	2.40	1.48	3.33	3.85	3.17	3.95
Switzerland	– 0.9	+ 1.4	Jun	1.58	0.76	1.98	2.68	2.01	2.72
United States	– 0.1	+ 4.8	Jun§	5.32	3.74	4.91	4.93	4.39	5.88
Euro area†	+ 9.3	+ 8.5	Jun	3.21	2.13	3.54	3.89	3.31	4.46

*Narrow: M1 except Britain notes and coin and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡New series. §New series for broad money supply. Benchmarks: US 30-year 5.05%, Japan No. 280 1.84%. Central bank rates: US fed funds 5.25%, ECB refinancing 3.00%, BOJ overnight call 0.25%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, Global Insight, JPMorgan Chase, Lehman Brothers, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Aug 10th 2006
From The Economist print edition

2000=100

	Aug 1st	Aug 8th*	% change on one month	% change on one year
Dollar index				
All items	175.8	175.8	– 2.8	+ 31.6
Food	136.8	136.8	– 3.5	+ 8.1
Industrials				
All	226.3	226.2	– 2.3	+ 58.5
Nfa†	154.0	153.5	– 4.2	+ 15.3
Metals	265.6	265.9	– 1.7	+ 79.7
Sterling index				
All items	142.8	139.8	– 6.1	+ 23.1
Euro index				
All items	127.6	126.6	– 3.5	+ 26.6
Yen index				
All items	187.9	187.7	– 2.1	+ 35.2
Gold				
$ per oz	639.65	644.57	+ 1.6	+ 48.6
West Texas Intermediate				
$ per barrel	75.03	76.42	+ 3.2	+ 21.1

*Provisional. †Non-food agriculturals.

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Stockmarkets

Aug 10th 2006
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Market indices

	Aug 9th	2006 high	2006 low	% change on one week	% change on record high	% change on Dec 30th 2005 in local currency	% change on Dec 30th 2005 in $ terms
Australia (All Ordinaries)	4,929.7	5,318.2	4,708.8	+ 0.5	- 7.7	+ 4.2	+ 8.7
Austria (ATX)	3,704.8	4,344.4	3,324.1	- 0.9	- 13.9	+ 2.0	+11.4
Belgium (Bel 20)	3,811.6	3,987.3	3,445.1	+ 0.1	- 4.5	+ 7.3	+17.2
Britain (FTSE 100)	5,860.5	6,132.7	5,506.8	- 1.2	- 14.4	+ 5.6	+17.4
Canada (Toronto Composite)	12,008.2	12,487.3	10,904.3	+ 0.3	- 4.1	+ 6.2	+10.8
Denmark (OMXCB)	355.6	395.5	325.0	- 0.3	- 9.8	- 3.1	+ 5.8
France (SBF 250)	3,524.4	3,755.6	3,244.2	- 0.2	- 19.6	+ 7.0	+16.9
France (CAC 40)	5,025.2	5,312.2	4,615.4	nil	- 27.4	+ 6.6	+16.4
Germany (DAX)*	5,702.8	6,140.7	5,292.1	+ 0.4	- 29.6	+ 5.0	+14.7
Italy (S&P/MIB)	36,851.0	38,765.0	34,850.0	+ 0.3	- 26.7	+ 2.9	+12.4
Japan (Nikkei 225)	15,656.6	17,563.4	14,218.6	+ 1.2	- 60.3	- 4.0	- 1.6
Japan (Topix)	1,578.4	1,783.7	1,458.3	+ 0.6	- 45.6	- 4.9	- 2.5
Netherlands (AEX)	453.3	478.0	412.9	- 0.4	- 35.1	+ 4.2	+13.9
Spain (Madrid SE)	1,293.8	1,318.5	1,156.8	+ 0.4	- 2.3	+11.4	+21.7
Sweden (Affarsvarlden Gen)	294.9	333.7	275.2	- 0.2	- 26.2	+ 0.7	+12.6
Switzerland (Swiss Market)	7,882.9	8,122.1	7,154.9	- 0.3	- 6.0	+ 4.2	+12.4
United States (DJIA)	11,076.2	11,642.7	10,667.4	- 1.1	- 4.5	+ 4.5	+ 4.5
United States (S&P 500)	1,266.0	1,325.8	1,223.7	- 1.0	- 16.3	+ 2.4	+ 2.4
United States (NASDAQ Comp)	2,060.3	2,370.9	2,020.4	- 0.9	- 58.8	- 5.7	- 5.7
Europe (FTSEurofirst 300)†	1,340.7	1,405.6	1,238.7	nil	- 21.3	+ 5.1	+14.9
Euro area (FTSE Euro 100)†	1,140.1	1,198.7	1,050.0	+ 0.3	- 26.7	+ 4.4	+14.0
World (MSCI)‡	1,327.0	1,406.3	1,243.9	- 0.3	- 8.2	+ 5.8	+ 5.8
World bond market (Citigroup)††	646.2	648.4	612.1	+ 0.4	- 3.4	+ 3.8	+ 3.8

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Aug 10th 2006
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2006	2007	Exchange rate trade-weighted† 2000=100 Aug 9th	year ago	Currency units per $ Aug 9th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2006‡
Australia	− 12.7	May	− 40.6	Q1	− 5.7	− 5.4	118.3	117.5	1.31	1.31	2.49	1.68	1.13	+ 0.9
Austria	− 1.3	May	+ 6.4	Q1	+ 0.4	+ 0.5	105.6§	104.6	0.78	0.81	1.48	–	0.67	− 1.9
Belgium	+ 13.1	May	+ 7.3	Mar	+ 1.5	+ 1.6	107.4§	106.1	0.78	0.81	1.48	–	0.67	− 0.4
Britain	−132.1	Jun	− 52.3	Q1	− 2.8	− 2.9	102.1	98.6	0.52	0.56	–	0.68	0.45	− 3.4
Canada	+ 59.9	May	+ 31.8	Q1	+ 2.3	+ 1.6	128.4	118.9	1.12	1.21	2.14	1.44	0.97	+ 2.2
Denmark	+ 8.4	Jun	+ 5.5	Jun	+ 2.2	+ 1.9	106.3	106.0	5.79	6.03	11.1	7.46	5.03	+ 3.3
France	− 32.3	Jun	− 33.4	May	− 1.8	− 1.5	108.3§	106.8	0.78	0.81	1.48	–	0.67	− 2.9
Germany	+186.4	Jun	+106.2	Jun	+ 3.5	+ 3.5	109.9§	108.1	0.78	0.81	1.48	–	0.67	− 3.1
Italy	− 19.9	May	− 30.3	May	− 1.7	− 1.5	107.9§	106.5	0.78	0.81	1.48	–	0.67	− 4.2
Japan	+ 80.6	May	+164.6	Jun	+ 3.7	+ 3.6	80.9	86.0	115	111	220	148	–	− 5.2
Netherlands	+ 38.6	May	+ 42.3	Q1	+ 5.9	+ 5.8	108.3§	106.8	0.78	0.81	1.48	–	0.67	− 0.5
Spain	−101.4	May	− 91.2	Apr	− 7.9	− 7.8	105.8§	104.8	0.78	0.81	1.48	–	0.67	+ 1.1
Sweden	+ 19.6	Jun	+ 23.2	Q1	+ 6.7	+ 6.0	98.9	96.4	7.12	7.54	13.6	9.17	6.18	+ 1.7
Switzerland	+ 7.2	Jun	+ 51.7	Q1	+12.7	+11.9	106.0	106.4	1.22	1.26	2.33	1.58	1.06	− 0.2
United States	−822.8	May	−808.5	Q1	− 6.7	− 6.8	82.8	85.0	–	–	1.91	1.29	0.87	− 3.6
Euro area	− 5.1	May	− 56.9	May	− 0.4	− 0.3	118.8	117.0	0.78	0.81	1.48	–	0.67	− 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 10.1	May	+ 10.1	May	na	na	109.0§	107.5	0.78	0.81	1.48	–	0.67	+ 2.2
Greece	− 37.7	May	− 23.3	May	na	na	104.8§	103.7	0.78	0.81	1.48	–	0.67	− 3.0
Iceland	− 1.9	Jun	− 3.1	Q1	na	na	87.4**	101.4	70.5	64.3	135	90.8	61.2	+ 2.0
Ireland	+ 38.0	May	− 5.6	Q1	na	na	113.7§	111.3	0.78	0.81	1.48	–	0.67	− 0.3
Luxembourg	− 5.0	May	+ 3.9	Q1	na	na	107.4§	106.1	0.78	0.81	1.48	–	0.67	− 1.7
New Zealand	− 4.6	Jun	− 10.1	Q1	na	na	122.3	135.4	1.59	1.44	3.03	2.05	1.38	+ 4.6
Norway	+ 57.6	Jun	+ 50.2	Q1	na	na	110.7	110.9	6.16	6.38	11.8	7.94	5.35	+ 18.5
Portugal	− 22.7	May	− 16.8	May	na	na	105.7**	106.0	0.78	0.81	1.48	–	0.67	− 5.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, June average. ‡OECD forecast. **IMF, April average.

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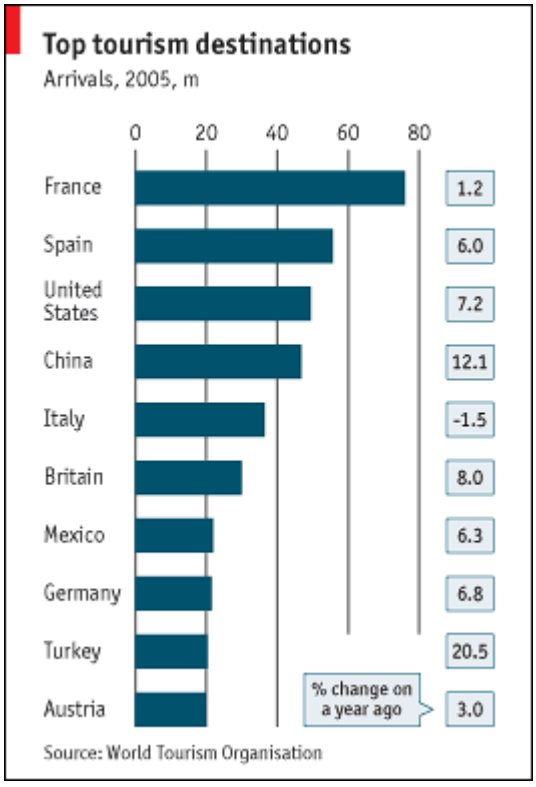
Top tourism destinations

Aug 10th 2006
From The Economist print edition



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Overview

Aug 10th 2006
From The Economist print edition

China's trade surplus reached a record $14.6 billion in July, surpassing June's total of $14.5 billion. Exports grew by 23% in the year to July.

Indonesia's central bank cut its key interest rate by half a percentage point to 11.75%, after a quarter-point trim in May and another in July. Thanks to surprisingly low inflation so far this year, it is confident it can meet its inflation target of 7-9% for 2006.

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Real pay

Aug 10th 2006
From The Economist print edition

Senior managers in Mumbai and São Paulo are better paid than their counterparts in New York or London, once the cost of living is taken into account, according to Hay Group, a human-resources firm. The calculations include the cost of rent, which is punishingly high in some financial centres. Sweden's heavy taxes leave top managers in Stockholm worse off, in real terms, than their peers in Shanghai or Budapest.

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Economy

Aug 10th 2006
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+11.3	Q2	+19.5	Jun	+ 1.5	Jun	+127.0	Jul	+160.8	2005	941.1	Jun
Hong Kong	+ 8.2	Q1	+ 7.0	Q1	+ 2.2	Jun	−14.0	Jun	+20.7	Q1	127.4	Jul
India	+ 9.3	Q1	+10.0	May	+ 7.7	Jun	−51.2	Jun	−10.6	Q1	157.1	Jul
Indonesia	+ 4.6	Q1	− 1.6	May	+15.2	Jul	+33.5	Jun	+ 3.8	Q1	42.3	May
Malaysia	+ 5.3	Q1	+ 7.0	Jun	+ 3.9	Jun	+27.1	Jun	+19.5	Q1	78.5	Jun
Pakistan	+ 6.6	2006†	+11.6	Mar§	+ 7.7	Jun	−12.0	Jun	− 4.8	Q1	11.6	Jun
Philippines	+ 5.5	Q1	− 5.4	May	+ 6.4	Jul	− 3.9	May	+ 2.9	Mar	18.2	Jul
Singapore	+ 8.1	Q2	+22.5	Jun	+ 1.4	Jun	+33.4	Jun	+36.1	Q1	129.9	Jul
South Korea	+ 5.3	Q2	+10.9	Jun	+ 2.3	Jul	+17.0	Jul	+ 7.8	Jun	225.7	Jul
Taiwan	+ 4.9	Q1	+ 5.5	Jun	+ 0.8	Jul	+11.3	Jul	+18.1	Q1	260.4	Jul
Thailand	+ 6.0	Q1	+ 6.1	Jun	+ 4.4	Jul	− 2.4	Jun	+ 2.7	Jun	56.4	Jun
Argentina	+ 8.6	Q1	+ 8.9	Jun	+10.6	Jul	+11.8	Jun	+ 6.7	Q1	24.4	Jun
Brazil	+ 3.4	Q1	− 0.6	Jun	+ 4.0	Jun	+45.3	Jul	+12.1	Jun	62.7	Jun
Chile	+ 5.1	Q1	+ 2.3	Jun	+ 3.8	Jul	+17.0	Jul	+ 0.8	Q1	17.0	Jul
Colombia	+ 5.2	Q1	+12.0	May	+ 4.3	Jul	+ 1.1	May	− 2.0	Q1	14.3	Jun
Mexico	+ 5.5	Q1	+ 5.7	May	+ 3.1	Jul	− 4.2	Jun	− 1.2	Q1	81.4	May
Peru	+ 6.5	May	+ 2.7	May	+ 1.5	Jul	+ 6.0	May	+ 0.7	Q1	13.3	May
Venezuela	+ 9.4	Q1	− 8.0	Apr	+13.5	Jul	+34.8	Q1	+28.1	Q1	23.8	Jun
Egypt	+ 5.9	Q1	+ 4.0	2005†	+ 6.4	Jun	−11.2	Q1	+ 2.1	Q1	21.1	Jul
Israel	+ 5.2	Q1	+10.4	May	+ 3.5	Jun	− 8.0	Jun	+ 4.4	Q1	27.5	Jun
Saudi Arabia	+ 6.6	2005‡	na		+ 2.2	May	+126.5	2005	+90.7	2005	24.0	Jun
South Africa	+ 4.0	Q1	+ 6.1	Jun	+ 4.9	Jun	− 6.9	Jun	−11.7	Q1	21.6	Jul
Czech Republic	+ 7.4	Q1	+12.2	May	+ 2.9	Jul	+ 1.6	Jun	− 3.4	Q1	30.4	Jun
Hungary	+ 4.6	Q1	+11.5	Jun	+ 2.8	Jun	− 3.3	Jun	− 7.9	Q1	21.1	Jun
Poland	+ 5.2	Q1	+12.4	Jun	+ 0.8	Jun	− 2.6	May	− 4.2	May	44.9	Jun
Russia	+ 5.5	Q1	+ 2.9	Jun	+ 9.6	Jul	+136.0	May	+91.4	Q2	257.9	Jul
Turkey	+ 6.4	Q1	+11.4	Jun	+11.7	Jul	−49.4	Jun	−28.7	Jun	56.8	Jun
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+11.7	Q1	+ 6.3	Jun	+ 4.5	Jul	− 2.7	May	− 1.8	May	2.1	May
Latvia	+13.5	Q1	+ 5.7	Jun	+ 7.0	Jul	− 3.5	May	− 2.3	May	3.1	May
Lithuania	+ 7.7	Q2	na		+ 4.4	Jul	− 4.1	Jun	− 2.1	May	4.2	May
Slovakia	+ 6.3	Q1	+12.1	Jun	+ 5.0	Jul	− 2.9	May	− 4.7	Apr	16.6	May
Slovenia	+ 5.1	Q1	+ 4.3	Jun	+ 2.0	Jul	− 1.8	Jun	− 0.3	May	8.4	Apr

*Excluding gold, except Singapore and China; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate. §New series.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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Financial markets

Aug 10th 2006
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	%change on		
	per $		per £	short-term	Aug 9th		Dec 30th 2005	
	Aug 9th	year ago	Aug 9th	% a year		one week	in local currency	in $ terms
China	7.98	8.11	15.2	3.00	1,659.2	– 1.4	+ 35.9	+ 37.5
Hong Kong	7.78	7.77	14.8	4.16	17,346.6	+1.8	+ 16.6	+ 16.3
India	46.5	43.5	88.7	6.42	11,145.2	+2.5	+ 18.6	+ 14.9
Indonesia	9,090	9,768	17,351	12.27	1,413.1	+1.3	+ 21.5	+ 31.6
Malaysia	3.66	3.75	6.99	3.90	941.3	+0.8	+ 4.6	+ 7.9
Pakistan	60.3	59.9	115	10.09	10,655.6	+0.9	+ 11.5	+ 10.6
Philippines	51.4	55.8	98.0	7.31	2,349.2	+1.8	+ 12.1	+ 15.7
Singapore	1.57	1.65	3.00	3.50	2,465.0	+0.5	+ 5.0	+ 11.1
South Korea	959	1,016	1,831	4.63	1,314.9	+1.5	– 4.7	+ 0.4
Taiwan	32.8	31.9	62.5	1.79	6,573.2	+1.6	+ 0.4	+ 0.6
Thailand	37.5	40.9	71.6	5.40	708.9	+2.1	– 0.7	+ 8.5
Argentina	3.07	2.87	5.86	10.19	1,633.3	– 4.7	+ 5.8	+ 4.4
Brazil	2.17	2.27	4.14	14.66	37,255.0	– 0.1	+ 11.4	+ 19.8
Chile	544	543	1,038	5.16	10,001.7	+0.5	+ 8.6	+ 2.3
Colombia	2,367	2,293	4,518	6.48	9,591.1	+6.5	+ 0.8	– 2.6
Mexico	10.8	10.6	20.7	7.03	20,062.4	– 0.4	+ 12.7	+ 10.6
Peru	3.23	3.25	6.16	4.40	9,382.3	+5.0	+ 95.4	+107.7
Venezuela	2,634§	2,638§	5,027	10.16	34,797.0	+1.3	+ 70.6	+ 67.5
Egypt	5.74	5.77	10.96	8.85	50,479.8	+0.2	– 8.8	– 8.9
Israel	4.36	4.51	8.33	5.66	808.9	– 1.6	– 2.3	+ 3.1
Saudi Arabia	3.75	3.75	7.16	5.18	11,318.4	+5.2	– 32.3	– 32.3
South Africa	6.73	6.38	12.9	7.80	20,793.4	+0.1	+ 14.9	+ 8.2
Czech Republic	21.8	23.7	41.7	2.35	1,430.2	– 0.3	– 2.9	+ 9.6
Hungary	209	197	399	7.16	21,940.1	– 1.2	+ 5.6	+ 8.1
Poland	3.00	3.26	5.72	4.19	44,519.1	– 0.5	+ 25.1	+ 35.9
Russia	26.7	28.4	50.9	11.50	1,642.9‡	+4.7	+ 35.5	+ 46.0
Turkey	1.45	1.32	2.76	20.00	37,563.3	+5.2	– 5.6	– 11.9
EM (MSCI)*	1.00	1.00	1.91	na	772.1	+2.1	+ 9.3	+ 9.3
EMBI+†	1.00	1.00	1.91	na	384.5	+1.0	+ 4.3	+ 4.3

*Emerging Mkts. †JPMorgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Trading market value.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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